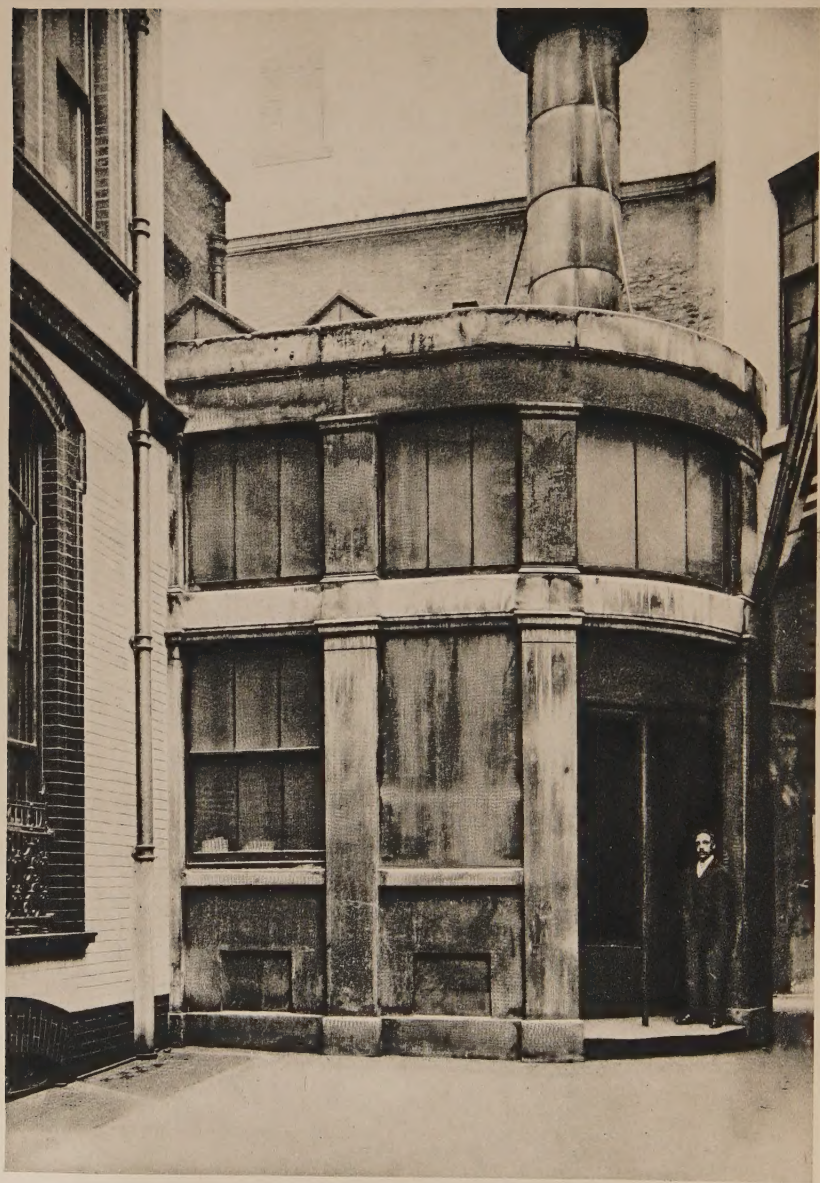


CLEARING HOUSES

James A. Cannon

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ENTRANCE TO THE LONDON CLEARING HOUSE.

CLEARING-HOUSES

THEIR HISTORY, METHODS
AND ADMINISTRATION

BY

JAMES G. CANNON

Vice-President of the Fourth National Bank of the City of New York

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THIS BOOK
IS AFFECTIONATELY DEDICATED
TO
MY MOTHER

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PREFACE

WHEN attempting some time since to make an investigation regarding some matters connected with the New York Clearing-house, I discovered, greatly to my surprise, that there was no book which gave, in succinct form, a history of the clearing-houses of the United States or a description of their methods. There have been many articles published separately in magazines and newspapers on some of the more notable clearing-houses, but no attempt appears to have been made to incorporate in one volume comprehensive data regarding the different institutions of this character that are in operation in the large cities of the nation.

A knowledge of the workings of these organizations is of great importance to the banker of the present day. Accordingly, I resolved that if it were a possible thing to do, I would gather together such information of this kind as might seem to be of interest to the banker and the student of finance and publish the same in a form to serve as a convenient reference. A banker's life is a busy one, but in such time as I have been able to devote to the work, I have collected the material upon which this volume is based.

It has been my effort to make the work as complete and accurate as possible. The chapters on the more important clearing-houses have been submitted to those

identified with their administration for criticism. A sharp lookout has been maintained for any modifications of established rules since the manuscript was begun. It is not supposed, however, that the book goes forth without errors and omissions. I hope that such of these as may be found to exist will prove to be unimportant in character and of such a nature that they can be readily corrected in a future edition.

In view of the increase in the attention given to economic subjects, and even practical financial methods, in our colleges, it is hoped that this book may prove of use to instructors and in some cases to students.

I take this occasion to express my deep appreciation of the valuable services rendered to me by many of my banking friends throughout the country. I am especially indebted to Mr. Thomas Coleman, who, under my direction, visited a large number of clearing-houses and procured much of the data incorporated in the chapters following. I am also profoundly grateful for the very serviceable aid given me by Mr. William Sherer, Manager of the New York Clearing-house; Mr. W. D. C. Street, Manager of the Chicago Clearing-house; Mr. C. A. Ruggles, Manager of the Boston Clearing-house, and Mr. T. A. Stoddard, Manager of the St. Louis Clearing-house, and many others.

If this volume adds anything to the knowledge of my banking friends on the interesting and important subject of which it treats, I shall feel amply repaid for the time and efforts that have been expended upon its production.

J. G. C.

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CHAPTER I

CLASSES OF CLEARING-HOUSES

A Clearing-house Defined—Clearing-houses Classified with Respect to Functions—Clearing-houses Classified with Respect to the Funds Used in Settlements.

What is a clearing-house? The Supreme Court of the State of Pennsylvania has defined it thus: "It is an ingenious device to simplify and facilitate the work of the banks in reaching an adjustment and payment of the daily balances due to and from each other at one time and in one place on each day. In practical operation it is a place where all the representatives of the banks in a given city meet, and, under the supervision of a competent committee or officer selected by the associated banks, settle their accounts with each other and make or receive payment of balances and so 'clear' the transactions of the day for which the settlement is made."

But we must go farther than this, for though originally designed as a labor-saving device, the clearing-house has expanded far beyond those limits, until it has become a medium for united action among the banks in ways that did not exist even in the imagination of those who were instrumental in its inception. A clearing-house, therefore, may be defined as a device to simplify and facilitate the daily exchanges of items and settlements of balances

among the banks, and a medium for united action upon all questions affecting their mutual welfare.

The clearing-houses in the United States may be divided into two classes, the sole function of the first of which consists in clearing-notes, drafts, checks, bills of exchange, and whatever else may be agreed upon; and the second of which, in addition to exercising the functions of the class just mentioned, prescribes rules and regulations for the control of its members in various matters, such as the fixing of uniform rates of exchange, interest charges, collections, etc.

Clearing-houses may also be divided into two classes with reference to the funds used in the settlement of balances: First, those clearing-houses which make their settlements entirely on a cash basis, or, as stated in the decision of the Supreme Court above referred to, "by such form of acknowledgment or certificate as the associated banks may agree to use in their dealings with each other as the equivalent or representative of cash;" and second, those clearing-houses which make their settlements by checks or drafts on large financial centres.

CHAPTER II

CLEARING-HOUSE TERMS

How Usages Differ—The Meaning of “To Clear”—Clearings—Exchange and Exchanges—Bills and Bills of Exchange—Draft and Check—Accounts Balanced and Balances in Accounts—Collections—Items—Clearing - matter—Settlements—Out-of-town Checks and Country Checks.

Every profession and every line of business, as well as every trade, develops its own peculiar terms and phrases. Those who become familiar with the routine of the business or the profession use these terms among themselves with a degree of precision and certainty of meaning which sometimes is difficult for one outside of the group to comprehend. The usage in this regard by banks and clearing-houses is no exception to the general rule.

Terms which are current in one part of the country, or in one financial centre, do not always obtain in others, and to a certain extent different terms are sometimes employed in different parts of the country for indicating approximately the same things. For these reasons, and others which the reader will readily apprehend, a brief consideration of a few of the prominent terms employed in clearing-house affairs is appropriate by way of introduction to the more important chapters which follow.

Nothing like a complete list is attempted, and instead of presenting the definitions in conventional dictionary fashion, the meaning of certain terms and the special uses to which they are applied are laid before the reader in a far less formal manner.

The term "clearing-house" is defined at some length in another part of this volume, from the stand-points of use and function. The word is also used in the sense of location or place. A clearing-house may be described as an office, established by the banks of a city, where their representatives meet daily, to exchange drafts and checks, and adjust balances.

The term "to clear" is popularly defined "to pass through the clearing-house." Another definition is, "to settle accounts by exchange of bills and checks, as is done in the clearing-house." To clear a check means to pass it from the bank that holds it as a deposit or for collection, to the bank on which it is drawn, and to receive payment therefor; but, with the complexities of modern business, a single check is seldom cleared. Instead, a multitude of checks and other items are included in each clearing. The term "to clear," therefore, takes on a broader meaning, and the only adequate conception of it is afforded by a view of the actual operations of a clearing-house, which are set forth in another part of this volume.

The word "clearing" designates the settlement of balances between banks, arising from the interchange of checks, drafts, etc., carried on at the clearing-house. The term "clearings" signifies the total of differences balanced at a clearing-house. Occasionally the words

“clearance” and “clearances,” which, properly employed, designate space or distance, are used in the place of “clearing” and “clearings.” Their employment in the place of the latter is not justified by general usage nor by the real meaning of these forms of the word.

The term “exchange,” so common in financial and business transactions, has various shades of meaning, ranging from a charge for the transfer of money from one point to another, to the place where business interests of a special class are brought together and where contracts concerning them are made. The word literally means the act of giving one thing as an equivalent for another, or for interchanging two equivalents. From this it comes that the word indicates that which is given or received by an arrangement for mutual interchange, and hence the term “exchanges,” frequently employed by those who have transactions with the clearing-house, to indicate the items that are to be exchanged, as, for example, in the phrase: “The amount of exchanges.”

The term “bill” has several different meanings, ranging from a statement of an account, or of money due, to a bank-note or government note. Occasionally, in loose usage, it means a promissory note. In Great Britain the term is frequently used to mean a bill of exchange. As used in connection with clearing-house affairs in this country, it usually designates bank-notes or government notes.

A “bill of exchange” is a written order or request from one person to another, for the payment of money to a third, the amount to be charged to the drawer of the bill. This term, therefore, while having a special meaning in

some cases, often includes drafts which are drawn by merchants upon their customers in ordinary course and put through bank for collection. The term in this sense, however, is less commonly employed than "draft."

A "draft" may be described as an order drawn by one party on another, for the payment of money to a third. It is for the most part limited to an order payable at, or collectable through, a bank or other financial agency. A draft made payable at some time other than at sight, and which has been accepted by the party upon whom it is drawn, is known as an "acceptance," and is treated by banks and clearing-houses the same as a note.

A "check" is an order in writing upon a bank or banker for the payment of a designated amount of money to some designated person or order. Checks vary in form. Those which are current between banks and bankers, as, for example, the checks that would be used by a country bank in drawing against the balance lodged with its New York correspondent, frequently take the form that commonly obtains with drafts. Hence the term "bank-draft" or "banker's-draft," often employed by those who purchase New York or other exchange of their local banks, to designate the character of their remittance.

A "centre" is described as, in the dictionaries, the place about which things cluster, or to which they converge. It is also described as the point of emanation or radiation. With this definition before us, it is easy to perceive what is meant by a "money centre" or a "financial centre."

The term "balance" has two distinct meanings, and

the word is used among bankers and business men in a way to indicate two things entirely different from each other. In its simplest form a balance may be declared to be an equality between the credit and debit totals of an account. But it is also used to refer to the difference between such totals, or, in other words, the excess on one side or the other. Thus in the first sense we declare that an account is balanced when it has been closed by securing an equality of the two sides. In the second sense, when we speak of the balance in an account, we mean either the debit or credit amount, as the case may be, that is required to produce an equality of the two sides, or, in other words, to close the account. The balances in a clearing-house statement are the respective differences between the debit and credit sides of the several accounts included in the statement. A bank's balance in a clearing-house settlement would mean either the amount that it has to pay, or the amount that it is to receive, according to the excess of debits or credits shown by the statement.

The dictionaries define the verb "to collect" as follows: "To gather money from many people." A collection is defined as "that which has been gathered or taken up;" but among the banks and in clearing-house circles the term "collection" is somewhat expanded beyond these limitations, and is used for designating that which is to be collected. For example, the drafts or bills of exchange which a bank holds at a given date are frequently designated as its "collections," particularly at the time that they are being arranged in proper order for transmission to its correspondents or for delivery to the

clearing-house. Sometimes the term employed in such cases is "collection items," which, of course, means the items for collection.

An "item," as the term is generally understood, means a separate article or entry in an account or schedule, or a sum so entered. The term among banks and in clearing-houses is used in the latter sense almost literally. An item is that of which an entry has been made, whether it is a draft, bill of exchange, check, or note.

The word is frequently employed in combination with a qualifying term, as, for example, "collection items," "out-of-town items," "city items," etc.

A term which is as nearly original with, and peculiar to, clearing-houses as any that might be cited, is "clearing-matter." "Matter," in this phrase, is a collective term, and designates any and all of the items that go into a clearing-house. Clearing-matter then means that collection of items, however assorted, which may be cleared. "Acceptable clearing-matter" would designate that which is acceptable, according to the rules of the clearing-house. There would, of course, be the opposite or negative term, for example, "unacceptable matter," meaning that which, while having somewhat of the character of clearing-matter, is not of a kind that is handled by the clearing-house in question, under the rules governing its operation.

A settlement, in ordinary commercial affairs, is an adjustment of accounts. "To settle" means to liquidate, or to pay, or to adjust differences. A "settlement" may

mean either the act of settling, or that which is accomplished by settling. A bank's clearing-house settlement therefore means an adjustment or payment of the difference between the debit and credit side of the account, and further designates either a receipt or a disbursement, as the case may be. Each member-bank has a settlement with its clearing-house daily.

In the designation of checks, with respect to the location of the banks upon which they are drawn, considerable confusion exists at times in the term employed for the purpose. "Personal check" and "local check" are terms occasionally used to indicate out-of-town checks or checks on country banks. An out-of-town check is one drawn upon any bank outside of the city in which a given clearing-house is located, or outside of the city in which member-banks of the given clearing-house are situated. In other words, it is one that must be sent away for collection. The term "country check" has the same general meaning, but is applied more particularly to checks drawn upon banks located at a considerable distance from a given clearing-house centre. Referring again to the terms "personal check" and "local check," above referred to, it must be evident to everyone who gives the matter the least thought, that a check drawn by a depositor on a bank in New York would be a local check, and that it also would be a personal check, and yet such a check, issued in the regular course of business, is not objectionable from any point of view. On the other hand, a check drawn by a merchant in an interior town upon a bank in that town, irrespective of the responsi-

bility of the drawer or the standing of the bank upon which it is drawn, would also be a personal check; but the latter would not represent par funds in New York. Out-of-town checks and country checks, accordingly, are subject to special regulations with respect to costs of collection.

CHAPTER III

SPECIAL FUNCTIONS OF A CLEARING-HOUSE

Primary Object—Extension of Field—List of Special Functions—Action of Clearing-house Banks at Outbreak of the Civil War—Mutual Assistance of Members—Fixing Rates of Interest on Deposits—The Practice in Sioux City—Establishing Rates of Exchange—Some Buffalo History—Rochester—Baltimore—Houston—Toledo—Topeka—St. Louis—Denver—West Superior—St. Joseph—Clearing-house Loan Certificates.

The primary object of a clearing-house is the exchange of checks and drafts between the banks associated together for that purpose, and the settlement of balances resulting from such exchanges; but this is not the only function exercised. As already shown, this single function constitutes a clearing-house of the first class, while the addition of other functions puts the organization into another class. The tendency has been marked, especially in recent years, to include within the legitimate field of clearing-houses all questions affecting the mutual welfare of the banks and the community as a whole. The bankers west of the Mississippi River have given to the country the most striking examples of the possibilities of clearing-houses exercising various special functions, while the great associations of the East, and especially

that of New York, have exemplified the utility and value of clearing-house loan certificates.

The most important of the special functions of a clearing-house are (a) the extending of loans to the government; (b) mutual assistance of members; (c) fixing uniform rates of interest on deposits; (d) fixing uniform rates of exchange and of charges on collections, and (e) the issue of clearing-house loan certificates.

Less than a decade after the inauguration of the clearing-house system in America, the Civil War broke out, and threw the government into a condition of acute financial embarrassment. The ordinary sources of income were insufficient to meet the demands of the approaching crisis. Thereupon the banks, members of the clearing-houses in New York and Boston, responded with practical unanimity to the call of the government for loans, by which the latter was enabled to put armies in the field and maintain the struggle for national unity.

In times of panic it is not infrequently the case that a bank in good standing becomes temporarily embarrassed. Unfortunate report may cause a run upon it, and, being unable to call in a sufficient amount of its outstanding loans to meet the demands of its frightened depositors, it must either secure a loan or fail. In such an emergency the other members of the clearing-house are usually willing to render assistance until the strain is relaxed. To secure such aid, however, a bank must be sound in its management and of good repute in every respect. Otherwise, the members of the clearing-house are likely to decline assistance, being quite willing to get rid of a weak and ill-managed member.

Another of the special functions of a clearing-house is the fixing of uniform rates of interest on deposits. In some associations the legality of such action is still regarded as a moot question, and hence they are reluctant to enforce such a rule. Other associations, however, have not hesitated to regulate the members on this point. As early as 1881, rates on interest were agreed upon in Buffalo, and were observed, practically without fraction or violation, for some nine years thereafter. They were broken at last only because of their non-observance by new banks, which at the outset refused to become members of the clearing-house organization.

The Sioux City, Ia., Clearing-house Association has fixed a maximum rate of interest of three per cent. per annum, to be paid by the members upon bank accounts or balances, when the balances amount to one thousand dollars or more; and a minimum rate on loans or re-discounts to banks of eight per cent. At St. Joseph, Mo., interest may be allowed to country banks at the rate of three per cent. per annum upon the amount remaining, after deducting for an average balance of two thousand dollars per day. No member can pay interest on any bank account when the balance averages less than two thousand dollars a day. Interest at the rate of three per cent. per annum may be allowed to any bank in the city, or to those individuals specified in the rules. No interest can be paid on any account except as specified in the rules, but it is understood that the city, county, and State are exempted from all interest rules, and any member may pay any rate of interest agreed upon on such public accounts. Interest

may be allowed upon certificates of deposits at a rate not to exceed four per cent. per annum for six months' time, and five per cent. per annum for twelve months' time. The certificates must state positively whether the money is left for six or twelve months. No interest is payable for parts of a month. Deposits made on or before the third of any month may draw interest from the first of the month.

Still another of the special functions of a clearing-house is the fixing of uniform rates of exchange, and of charges on the collection of items. In 1881, the year in which the clearing-house in Buffalo was organized, a prominent banker in that city succeeded in uniting the banks on rates. The promoter of the enterprise, though well known for rate-cutting, was a successful banker and had always been able to meet competition successfully. Hence, when he proposed a uniform-rate system, the other banks were only too glad to consider his propositions. Meetings were accordingly held, schedules of charges were drawn up, and rules were formulated for the guidance of the banks. In a short time a schedule was adopted and put in successful operation. The rates were not high, but were arranged so as to do justice, as far as possible, to the banks on the one hand and the depositors on the other, and so satisfactory was the new *régime* that it remained in harmonious operation for nearly nine years. It is said that the increase in profits or collections, to the twelve banks interested, over the former method of doing business free of charge, paid the dividends of all the banks each year, and whatever profit was made on loans and discounts was used to build up

the surplus. But the formation of new banks finally played havoc with the uniform-rate system. While it lasted it was made obligatory upon every bank, but in 1891 the newly organized banks began to cut on rates. The clearing-house members endeavored to induce the new banks to join the association, but did not at first succeed. It was regarded as unjust to the member-banks to hold them to the existing agreement when their competitors were free, and accordingly, in June, 1891, the schedule of rates was made no longer obligatory.

In 1895 the Rochester, N. Y., Clearing-house Association put in operation a schedule of collection charges, and the results have been most satisfactory. All of the banks were in favor of it, but there was at first some complaint on the part of customers. The rates for remittances of city items were fixed at a meeting of the association early in the year 1895, as follows: Minimum charge, ten cents; from one hundred dollars to one thousand dollars, one-tenth of one per cent.; from one thousand dollars to two thousand dollars, one dollar; over two thousand dollars, one-twentieth of one per cent.; par remittances to be made weekly. Provision was made for a fine of one thousand dollars upon any member failing to observe the rates; two hundred and fifty dollars of this fine is to be paid to the party giving the information.

On the first day of February, 1897, a rule went into force at Baltimore, requiring the members to charge and collect without rebate, from all individuals, firms, or corporations, residing in the city, who might thereafter become new depositors or customers of the banks which are members of the association, such minimum rates of ex-

change on checks, drafts, notes, and acceptances, payable out of the city, as are named in schedules to be furnished from time to time by an exchange committee of the clearing-house. The penalty for violation of this rule is expulsion from the association, provided a majority of the members vote in favor thereof.

At a meeting of the Houston, Tex., Clearing-house Association, March 9, 1897, the following resolutions were unanimously adopted: "Owing to the fact that banks in certain cities of this State are uniformly charging the banks of Houston exchange on all collections not reading 'with exchange,' bearing indorsements of banks outside the State; therefore be it

"Resolved by the Houston Clearing-house Association, that all its members will hereafter, as a matter of self-protection, charge the current rate of exchange upon all collections received from banks located in any city where the foregoing rule is in effect, and which may bear the indorsement of any bank or banker outside of Texas, or originating outside of the State.

"Resolved, that this resolution take effect on and after April 1, 1897."

In the latter part of Rule 5 of the Articles of Association of the Toledo, O., Clearing-house, it is provided as follows: "It shall also be in the power of such committee (the committee of management) to fix rates of charges on items outside the city and charges for drafts or currency from time to time, if deemed advisable, and change, revise, or suspend the same as circumstances require."

In the Constitution of the Topeka, Kan., Clearing-

house Association, the rules on rates for collection are as follows:

“ Rates for collection whether made or not: Collection payment in advance up to fifty dollars, ten cents each item; fifty dollars to one hundred dollars, fifteen cents each item; one hundred dollars and upward, twenty-five cents each item. Collections on agricultural implement paper, twenty-five cents each item. All drafts drawn with bill of lading attached, whether cash items or not, twenty-five cents each item; and if cash is advanced on the same, not less than ten cents per hundred or one dollar per thousand. Rates of exchange on drafts and collections drawn with exchange shall be made at not less than fifteen cents up to fifty dollars; twenty-five cents up to one hundred dollars, and ten cents for each additional hundred. The above charges shall not apply to collections not drawn with exchange, received from bank correspondents who do not charge collecting bank on like items.”

The Clearing-house Association at St. Louis has in force a most successful system of collection charges. The new rules became operative March 1, 1895, and are obligatory upon all the banks, members of the Clearing-house Association, and upon all banks and trust companies making their clearings through the clearing-house. Under this *régime* every bank and trust company, whether a member, or clearing through a member, is required to charge for all items received from St. Louis city customers, and passed direct to their credit, or cashed for any resident of the city, not less than one-tenth of one per cent. of the amount of the item, and if said per cent.

does not amount to fifteen cents, the charge must not be less than that sum. It is understood, however, that all items received at any one time from any customer, and payable at one place, may be added together and charged for as if they were one item. This schedule applies to that section of the United States bounded by North Carolina, Tennessee, and Arkansas on the south, and North Dakota, South Dakota, Nebraska, and Kansas on the west. In all the rest of the States and Territories a charge must be made, amounting to not less than one-fourth of one per cent. of the amount of the item, and if said per cent. when calculated upon any such item does not equal fifteen cents, the charge must not be less than that sum; but it is understood, as before, that all items received at any one time, from any customer, and payable at one place, may be added together and treated as one item. On all such items drawn with exchange the charge is one-half of the foregoing rates, except those upon which the charge of fifteen cents is made.

It is discretionary with each bank and trust company as to the charge on items drawn on the cities of New York, Brooklyn, Jersey City, Boston, Philadelphia, Baltimore, Chicago, Cincinnati, Louisville, and New Orleans, and bank-drafts on banks in Kansas City, Mo. Each bank and trust company, member of or connected with the clearing-house, is required to collect the foregoing charges on all items not later than the third day of the calendar month next following the receipt or handling of the item, or issuance of the draft or check, and no such bank or trust company is permitted to allow, either directly or indirectly, any rebate or return of any such

charges, or to make in any form, whether of favor or otherwise, any compensation therefor.

The violation of any of these rules by any bank or trust company clearing through a member, would deprive the same of its connection with the association, and work the forfeiture of its rights and privileges in the clearing-house. For a similar offence any member would be expelled on a three-fourths vote in favor thereof.

The Denver, Col., Clearing-house Association has rules regarding collection charges, which went into operation October 1, 1897. These rules require that all checks, drafts, or other items deposited by corporations, firms, or individuals, or presented for negotiation, not drawn on or payable in certain leading cities throughout the United States, as specified in the rules, shall be discounted, the rate to be not less than fifteen cents per one hundred dollars or fraction thereof, and, in addition thereto, the cost of collecting the same. On collections payable with exchange, a charge of one-tenth of one per cent. is collected from the payer of the collection, and in case of refusal to pay exchange, payment of the collection is not received. No collection is made for less than ten cents.

At West Superior, Wis., a regular system of rates of charges on collections is enforced. On collections out of town a charge is made of twenty-five cents per one hundred dollars or under, and ten cents for each additional one hundred dollars or fraction thereof. A similar charge is imposed for remitting for collection in the city or elsewhere.

The clearing-house at St. Joseph, Mo., is *sui generis*.

No other association—not even the one at St. Louis—approaches it in the detail with which it has worked out a system of regulations governing the conduct of its members. On all items, except in certain cities specified, credited or cashed for city customers, a charge of fifteen cents is made on each one hundred dollars or fraction thereof, no charge being made at less than fifteen cents. Upon all items drawn upon points in nearly all the States west of the Mississippi River, a charge is made of twenty-five cents per one hundred dollars or fraction thereof. Items upon Denver, New Orleans, and Memphis are charged upon at the rate of fifteen cents per one hundred dollars. On all out-of-town items left for collection, a charge of fifteen cents per one hundred dollars or fraction thereof is made, in addition to the actual cost of collection. A charge of one dollar for one thousand dollars is made on all St. Joseph items collected for, or bearing the indorsement of banks on and east of the Mississippi River, and other out-of-town customers, except regular country correspondents. On all out-of-town items a charge is made of one dollar per one thousand dollars, over and above the cost of collecting. On all checks and other items received from St. Louis, points south of that city, and from all points east of the Mississippi River, drawn on St. Joseph, and all points west of the Mississippi River, a charge of one-tenth of one per cent., in addition to the cost of collecting, is levied, for credit made or exchange returned therefor. Drafts drawn by country correspondents on members of the association may be excepted from this rule. On all items received from country correspondents, bearing the indorsement of St.

Louis, or any point east of the Mississippi River, a charge is made of not less than ten cents per one hundred dollars. For violation of any of the rules of the association, the offending member is liable to a fine of one thousand dollars, and may also be expelled from the association by a two-thirds vote of all the members.

In addition to the functions we have just described, we may mention the regulation of premium on exchange, the cost of transfers by wire, and the limitations to the deposits of city customers.

Each member of the St. Joseph Clearing-house is allowed to submit a list of the names of jobbers doing business in the city to whom it may sell exchange at the rate of not less than fifty cents per one thousand dollars. The St. Louis Clearing-house makes a like charge to any party taking a draft or a check drawn by any bank or trust company, member of or connected with the Clearing-house Association, on New York, Boston, or Philadelphia. If the premium thus estimated on the amount of any draft or check does not equal fifteen cents, then the charge on that item must be that sum. But this rule does not apply to the purchase and sale of exchange between members of the clearing-house or institutions clearing through members.

Upon all transfers by telegraph by any member of the Denver Clearing-house Association, a charge of one per cent. is made up to one thousand dollars, and one-eighth of one per cent. above that amount, but on a transfer of one thousand dollars to two thousand dollars a charge must be made of not less than two dollars and fifty cents. Transfers by telegraph for city customers may be made

by members of the St. Joseph Clearing-house for two dollars per one thousand dollars, in addition to the cost of the telegram. For banks, a charge for transfers must be made of not less than one dollar per one thousand dollars, in addition to the cost of the telegram.

The position recently taken by the New York Clearing-house in the matter of collecting out-of-town items, should be referred to in this connection. It is discussed in another chapter, to which the reader is referred. The same remark applies to the foreign department of the Boston Clearing-house, recently organized, which is likewise presented in another chapter.

The last of the important special functions of the clearing-house, to which attention will be called, is the issue of clearing-house loan certificates in times of panic. By this means, in some cases, the specie reserves of the clearing-house members have been combined in a way to become a common fund, so that any bank which experienced an unusual demand for specie was supported by the combined reserves of all the banks. The bank thus assisted secures the other members against loss, by depositing with a committee, appointed for the purpose of receiving them, its securities in the shape of stocks, bonds, and bills receivable. So important are the history, methods, and results of this remarkable device, that special chapters are necessary for their exposition.

CHAPTER IV

POSSIBLE DEVELOPMENTS OF THE CLEARING- HOUSE SYSTEM

New Functions to be Exercised—Country Checks—Transfer of Currency from Point to Point—Possible Use of Gold Certificates—Special Examiners—Settlement of Balances—Advantages of the Cash Basis—Clearing-house Depositories—The Use of Depository Certificates.

The clearing-house system is becoming a definitely recognized power in the financial methods of the United States. It is as yet in its infancy, and the powers that the various clearing-houses possess are capable of development and expansion to an indefinite degree. The clearing-house, which was begun simply as a labor-saving device, has united the banking interests of various communities in closer bonds of sympathy and union, and has developed into a marvellous instrumentality for the protection of the community from the evil effects of panics and of bad banking. Clearing-houses are gradually becoming a welding force that ultimately will bring to the banking business of this country the centralization which it so greatly needs. In the course of time, rates for money in the United States will become more and more on a par with those prevailing in European money centres, and then the clearing-houses of the various financial cen-

tres of this country will be obliged to undertake functions which as yet they have only discussed.

As money rates decrease, losses from bad debts must be brought to a minimum, and the question of a central agency, which shall disseminate information regarding paper outstanding among the banks, must and will receive the attention it deserves.

The payment of uniform rates of interest on bank deposits has already been taken up by some of the associations, and will in due time receive the same careful attention here that is accorded it in London. The time is near at hand when the banks that are members of clearing-houses will be obliged to sink their differences, and, by agreement, regulate, monthly or quarterly, the rate of interest to be paid, this rate to be subject to change, according to varying conditions of the money market.

More careful supervision over the establishment of new institutions will be necessary, and the regulations regarding non-members clearing through members will also receive closer attention.

The question of country checks is now being regulated in some clearing-houses—a matter which is specially treated in one of the chapters following, and the time is not far distant when this subject will receive the consideration from all the clearing-houses to which it is entitled.

The question of shipping currency by express, from one clearing-house to another, will, in time, be effectively dealt with. A law allowing the legal tender or gold certificates issued by the various assistant treasurers of the United States, payable to any member of a given

clearing-house, to be indorsed and used in the payment of balances in any city in which there is a sub-treasury, is needed, and no doubt in time will be secured by the co-operation of the different clearing-houses. As these certificates are payable only to specified clearing-house banks in certain cities, they could be sent by mail at small rates to the bank, thereby becoming a medium of exchange between large centres, minimizing loss and saving the transportation of large sums of money. The government might make a small charge for their redemption, if it redeemed them in any city other than the one of issue.

Special bank examiners, assisted by trained experts, employed by clearing-houses, subject to rigid rules, and ready to go to work at a moment's notice, might be useful to the members of a clearing-house, for the purpose of making examinations. These examiners should be paid only moderate sums for examining banks, and this would enable directors of institutions that are members of a clearing-house to secure, at a moment's notice, parties who are trained and thoroughly competent to perform the desired work. As these men would be in the employ of the clearing-house, they would not be subject to outside influences, and in this way the question of the supervision of banking institutions by directors would be dealt with effectively.

The settlement of balances is a matter which should be most carefully considered by the banking and business community, for the proper management of settlements will do a great deal toward enhancing the prosperity of the community. Bankers sometimes plead for a more

elastic currency, but what is needed is more elasticity in the assets of the banks. What is wanted are assets that are readily convertible into cash in times of panic, and which will pay depositors, as well as permit new loans. In such times banks need expansion in the right direction, and not contraction. Cash settlements in all the clearing-houses of the United States would be conducive to better banking, for, under this rule, the clearing-house banks would be obliged to keep themselves prepared at all times to meet large drafts upon them through the clearings. On the other hand, when clearings are settled by drafts upon financial centres, if the banks are not prepared for emergencies, they borrow from the institutions in those centres, and sometimes thereby expand themselves beyond prudent limits.

Bank officers often loan money to manufacturing corporations, which invest the same in plant, and are for this reason unable to meet their notes when due. Such loans become fixed assets of the bank, and are not available in times of financial stringency. The banks thereby become, to a certain extent, stockholders in the corporations. If the banks compel the payment of such loans in times of trouble, they thereby restrict the operations of the manufacturing concerns, throw men out of employment, and thus disarrange the entire industrial system of the community.

Banks are often led to invest their money in unavailable assets, simply because they feel that they will not be called upon to pay any large amount of cash, either to their depositors direct, or through the clearing-house. Consequently, the settlement of balances in anything but

cash, or its equivalent, is liable at times to affect the whole economic condition of the community. If a careful study were to be made of the most prosperous of our interior cities, it would be found that the banks in those cities settle their clearing-house balances on a cash basis.

Cash settlements at the clearing-houses of interior cities would compel the banks to keep more money in their vaults. This would enable them more readily to meet the requirements of their customers. The need of outside assistance would be, in a measure, removed, and thereby all the financial institutions of the country would be kept upon a more even basis.

Some of the large clearing-houses would find it advantageous to provide depositories in which currency of all denominations could be deposited in vaults, and certificates issued therefor, that could be used in the settlement of balances. Then, during the crop-moving periods, and at other times when there is a demand for small bills, they could be supplied from the clearing-house vaults. By such an arrangement the banks would not be obliged, as has often been the case, to give up one form of money which they desire to keep for the sake of procuring another form, and therefore they would be able to work to a greater or lesser extent independently of the sub-treasuries.

These and many other matters might be taken up by clearing-houses, and brought to the same degree of perfection as the loan certificate, an instrumentality which has been of inestimable value to the business world.

CHAPTER V

THE ADMINISTRATION OF CLEARING-HOUSES

List of Officials—Duties of Officers—Committees—Annual Meetings—Plan of Administration in Canada—Duties of Officers and Committees.

The government of a clearing-house association in the United States is theoretically vested in a president, a vice-president, a secretary, a treasurer, a manager, and a clearing-house committee, sometimes termed the committee of management, or the executive committee. Not every association, however, is as completely officered as this. In fact, there are many associations that do not have the full list of officials named. A president, a manager, and an executive committee, however, are found in the organization of nearly every clearing-house association, for these functionaries are practically indispensable. The other officials mentioned are lacking in various associations, especially in those located in the smaller cities, their duties being performed by some of the other officers.

It is the duty of the president to preside at all the meetings of the association. As a rule, he has power to call special meetings whenever he may deem it advisable, and must do so upon the request of a specified number of the members. He exercises a general supervision over clearing-house affairs, and performs the duties usually de-

volving upon an executive officer. In many cases he is *ex-officio* chairman of the clearing-house committee and of all standing committees. He is elected annually, with very few exceptions, and serves without compensation.

The vice-president performs the duties of the president in the latter's absence. The duties of secretary and treasurer are frequently performed by the manager. The secretary keeps the record of the proceedings of the meetings of the association, and performs all the duties usually pertaining to that office.

The treasurer must account for the funds intrusted to his keeping, and must pay out the same upon the written order of the president, countersigned by the manager, or, if the latter be at the same time treasurer of the association, then upon the written order of the clearing-house committee, or upon any other authority that the association may designate.

The manager is either elected by the association or appointed by the executive committee to serve, as a rule, one year, although almost invariably he is re-elected from year to year for an indefinite period. In some of the large cities a heavy bond with sureties is required of the manager, varying in amount from ten thousand dollars to twenty thousand dollars. In cities where no cash is used in the settlement of balances, there is, of course, much less opportunity for fraud on the part of the manager, and hence in such cases, as a rule, no bond is demanded. In many of the smaller cities, where the manager's duties and responsibilities are light, and where he is regularly employed in some other capacity, his services are not infrequently gratuitous.

The manager has immediate charge of all business at the clearing-house, subject to the control of the clearing-house committee. The employees and the settling clerks and messengers from the banks, while at the clearing-house, are under his immediate direction. He imposes and collects fines for violations of the rules of the association, has supervision of all the records of clearances and settlements, and sees that the clearing-house and the property connected therewith are kept in order. He makes such annual reports and performs such other duties as may be required of him.

The clearing-house committee is usually composed of three members chosen from the most capable and experienced bankers in the association. In one case which has come to notice, the membership of this committee consists of only two. It sometimes exceeds three, as at New York and Philadelphia, in each of which cases there are six members besides the president, who is a member *ex-officio*.

The clearing-house committee is elected annually, and is by far the most important of all the committees. In it is vested almost absolute power, the direction of practically the whole machinery of the clearing-house resting in its hands. It is empowered by the association to procure suitable rooms for the clearing-house, to provide proper books, stationery, fuel, furniture, and whatever else may be necessary for the convenient transaction of business; to appoint a manager, except where this power is directly exercised by the association, and generally to supervise affairs. It draws on the members for their share of the expenses, fixes the salaries of the clerks in

the clearing-house, and has the power to remove the same, and the manager as well, whenever it may deem such action to be for the best interest of the association.

Not infrequently the clearing-house committee is authorized to examine a member, whenever it may seem to it necessary so to do, or whenever requested to do so by a specified number of the other members, and, in case the member's condition justifies it, to demand sufficient securities for the protection of its balances resulting from the exchanges of the clearing-house. It also has power, whenever it may seem necessary for the protection of the other banks, to suspend a member from the association until the latter takes action upon it. The clearing-house committee, in most cases, holds regular meetings monthly, or oftener. Stated examinations of funds and securities are often required, as, for example, at San Francisco, where the committee must examine, at least quarterly, all securities and deposits of the association in its charge.

In addition to the clearing-house committee, there are frequently a conference committee, a nominating committee, an arbitration committee, a committee on admissions, an exchange committee, and, in special emergencies, a loan committee. No one association has all these committees, but the New York Clearing-house has all but the exchange committee. Most clearing-houses are too small and their duties too simple to require so extensive a division of powers, and hence, as a rule, we find only one or two committees at most, in addition to the clearing-house committee.

The conference committee is elected annually to serve in special emergencies, and its duty consists in acting in

conjunction with the clearing-house committee, whenever the suspension of a member becomes a question of expediency. There must be at least a majority of each committee present to suspend a member, and a unanimous vote is necessary to carry. In case of a suspension, the clearing-house committee must forthwith call a general meeting of the association to take the matter into consideration.

The nominating committee is elected annually, and is charged with the duty of presenting to the association, at each annual meeting, the names of candidates for president and secretary, and for membership upon the clearing-house, conference, and nominating committees.

The arbitration committee is appointed by the president at each annual meeting. Its duty is to decide all disputes that may be submitted to it by both parties thereto, a member of the association being one of them. In associations where no arbitration committee exists, its function is usually performed by the clearing-house committee.

The committee on admissions is appointed annually by the president, and the clearing-house refers to it for examination all applications for membership in the association.

Where an association has an exchange committee, the committee is elected each year. It is authorized and required from time to time to prepare schedules of rates of exchange on out-of-town items, including among them those taken as cash received for collection, or held as security for loans, or that might be discounted subject to collection.

The Clearing-house Association holds an annual meeting for the purpose of electing officers and committees, and for the transaction of other business. The quorum is usually fixed at a majority of all the associated banks. In some instances, however, it is placed at two-thirds, and in a few cases even as low as one-third, of all the members. Sometimes a specified number is designated as constituting a quorum. Each bank is expected to be represented at the annual meeting by one or more of the officers, but usually is allowed only one vote. An exception to this rule is the association at Worcester, Mass., where two votes are allowed. For failure to be represented at an annual meeting, a fine of two dollars, or three dollars, or even five dollars, is imposed. It is the duty of the association to fix the salary of the manager, admit banks to membership, and, when occasion demands, to suspend or expel members. In some of the large cities the associations receive in special trust, and issue certificates for, such United States gold coin as any of the associated banks may deposit for safe-keeping for clearing-house purposes.

The method of controlling clearing-house organizations in Canada is somewhat different from that employed in the United States. There the supreme executive body is the board of management. At Halifax and Hamilton the cashiers and managers of the several banks constitute the board of management. At St. John only the managers or agents, or, in their absence, the acting manager or acting agents, constitute the board. At Toronto seven bank officers are elected at each annual meeting to serve in this capacity, and at Winnipeg the committee is com-

posed of five bank representatives. The chairman of the board is elected annually at Halifax, Hamilton, and St. John, and at Toronto a chairman, vice-chairman, and secretary-treasurer are elected.

The powers of the board of management are practically absolute in all clearing-house affairs, being co-extensive with those of the clearing-house committee, and the association acting in executive session in the United States.

It is the custom with Canadian clearing-houses, through the board of management, to arrange with a member to act as the clearing-bank; to select an officer from time to time to act as manager of the clearing-house; to make assessments upon the members for expenses, and to exercise general control over clearing-house affairs. The manager presides at the exchanges between the banks and settlement of balances, has charge of the records of the clearing-house, exercises control over the clerks from the several banks while at the clearing-house, and, in a word, performs all the duties customarily performed by clearing-house managers in the United States.

CHAPTER VI

THE SETTLEMENT OF CLEARING-HOUSE BALANCES

Results Accomplished by Settlements—Ratio of Balances to Clearings—Settlements with Money—Clearing-house Settlements in Canada—Money in Labelled Packages—Objections to Silver—Methods of Settling Balances Without Money—Advantages of the Manager's Check Over Settlements in Cash.

The exchange of items between the banks accomplishes two results: First, it places at the proper banks, for payment, the items to be exchanged, which the several banks hold; and second, it determines the difference between the amount of the items held by each bank against all the other banks, and the amount held by all the other banks against each individual bank. This difference constitutes the balance which is to be settled.

A bank cannot know whether its exchanges at the clearing-house will bring it out a debtor or a creditor until the settling clerk returns from the clearing-house. It is a very rare occurrence for a complete offset to take place in any bank's exchanges; that is, for the amounts sent to the clearing-house to exactly equal the amounts received, in which case, of course, there would be no balance. Each bank expects a difference one way or the other, ranging from a few cents to a very large amount.

In a great city, a bank may be a creditor one day to the extent of several hundreds of thousands of dollars, and the next day a debtor to a similar amount. It is of the utmost importance, therefore, that each bank should be prepared to meet any balance which may appear against it at the clearing-house.

The ratio of balances to clearings depends partly upon the number of banks, but much more upon the amount and character of their business, and upon their relations one to another. This is illustrated by figures, which were collected in 1897-98: At Pittsburg, with nineteen members and seventy non-members clearing through members, the balances were sixteen and two-thirds per cent. to twenty per cent. of the clearings; at Buffalo, with eighteen members, fifteen per cent.; at Chicago, with twenty-two members and ninety-seven non-members clearing through members, ten per cent.; at Louisville, with fifteen members, twenty per cent.; at Rochester, with sixteen members, from twenty per cent. to twenty-five per cent.; at St. Louis, with seventeen members, ten per cent.; while in New York, during the first forty-three years of the existence of the association, it was only 4.65 per cent., notwithstanding the operations of the United States Assistant Treasurer, who almost always has a heavy debit balance.

The more nearly the banks stand on an equality with each other, the more nearly will their transactions approach a complete offset, which, of course, would leave no balance to settle.

The methods of settlement of clearing-house balances may be divided in a general way into two classes: First,

settlements with money, and second, settlements without money.

A clearing-house acts merely as the agent of the banks in the payment of the balances. It pays to the creditor banks the money it receives from the debtor banks. As soon as the result of the exchanges is known, the debtor banks may begin the payment of their balances, all of which must be paid in before the expiration of a specified time, usually two or three hours after the exchanges. Failure on the part of any member to meet its requirement promptly would subject it to a fine.

Any kind of United States money is acceptable in most of the small clearing-houses; but in a majority of the large ones certain kinds of money are not acceptable. The following are illustrative examples: At Baltimore, gold coin, greenbacks, and certificates, redeemable in coin, are used, and silver is accepted only for fractional parts of thousands; at Buffalo, United States Treasury certificates, United States legal tender notes, national bank notes, gold and silver certificates, and gold coin are used; at Milwaukee, gold coin and currency; at St. Paul, all forms of currency except silver coin, and at San Francisco, Los Angeles, Cal., and Portland, Ore., gold coin is used exclusively.

About seventeen per cent. of the clearing-houses of the United States settle their balances entirely on a cash basis. In Canada, however, all the clearing-houses, except the one at Hamilton, settle in government legal tender notes. Settlements in Hamilton are made by drafts upon the head offices or agents of the respective banks, on Montreal, in favor of the clearing-bank which

gives its own drafts on Montreal to the banks in credit.

Some clearing-houses require that money, when paid in by the banks, shall be assorted and put up in packages, each package to contain bills of a given kind and denomination, and when the balances are sufficient, to consist of specified amounts, usually one thousand dollars, five thousand dollars, and ten thousand dollars, respectively. For instance, at Milwaukee all currency paid to the clearing-house, when the amounts are sufficient, must be put up in packages of five thousand dollars, or ten thousand dollars each. The inside parcels of the packages must bear the number of the bank putting up the same, with the date thereon. Such packages must be securely bound with twine or tape, with a wide paper band around the centre, fastened with wax, bearing the seal of the member putting them up, and the date of sealing. No notes of a less denomination than five dollars (except to make change), or over one thousand dollars, can be paid in. Likewise, all gold coin must be put up in strong canvas bags, of five thousand dollars each, and such bags must have suitable labels bearing the name of the sealing member, amount of contents, and date of sealing. For all gold coin or currency paid in, in amounts less than five thousand dollars, the value of the parcel or package must be guaranteed by the bank (whose number it bears) to the bank breaking the package, for twenty-four hours after receiving it, but in no case can claims be made after a package has been paid to any party not a member of the association.

Silver coin is not excluded from settlements in clear-

SIGNED, J. C. Dunn Manager.

BUFFALO CLEARING HOUSE.

BUFFALO, N. Y., May 1st 1899.

Received from No. Two \$ 10.000.
Ten Thousand _____ Dollars

in settlement of balance due Clearing House this day.

Signed J. C. Dunn Manager

Form of Receipt given by Buffalo Clearing-house to Debtor Banks on Payment of Balances.

ing-houses in the United States because of any prejudice against it as money, but because, owing to the enormous amount of clearing-house transactions, its bulk would render it too cumbersome and inconvenient for handling. For the same reason it is not so desirable as other forms of money in large transactions of any kind.

A receipt is given at the clearing-house to each debtor bank as soon as its balance is paid. There is presented herewith a reproduction of the form used at Buffalo.

This receipt is filled out by the clearing-house clerk, showing the amount due from the Marine Bank (No. 2) to the clearing-house. Its authenticity is established by the signature of the manager at the top. This receipt is taken away by the Marine Bank messenger, who returns with the funds. The manager then signs the receipt in the usual place, and in this condition it becomes a voucher to the Marine Bank for the payment it has made.

The clearing-house clerks of these banks have already carried back a receipt, of which a copy is given herewith, that is likewise "vised" by the manager at the top. This receipt is then signed, for instance, by the cashier of The City National Bank (No. 20), and sent at the hands of two trusted messengers, who receive the funds from the clearing-house manager. This receipt in turn is kept by the clearing-house as its voucher for the payment made. A receipt is sometimes written by the clerk receiving the balance, in a book kept by the manager for that purpose, but a more common method is one similar to that described as given by the bank.

There are no less than five different methods of settling balances, in whole or in part, without the use of money

Signed
J. C. BANK
SECRETARY

BUFFALO CLEARING HOUSE.

BUFFALO, N. Y., *May 1st* 189*9*.

Received from BUFFALO CLEARING HOUSE,
Fifteen Thousand — Dollars, \$ *15,000*.

in settlement of balance due No. *Twenty* — this day.

Signed John R. Baag
CASHIER.

Form of Receipt used by Buffalo Clearing-house given by Creditor Banks on Receipt of Balances.

at the clearing-house. They are (1) by manager's check on debtor banks given to creditor banks; (2) by borrowing and loaning balances without interest; (3) by borrowing and loaning balances with interest; (4) by the use of one or more of three forms of certificates—namely, gold depository certificates, United States Assistant Treasurer's certificates, and clearing-house loan certificates, and (5) by draft on another city.

When money is not used in the adjustment of balances at the clearing-house, one of the most common methods of settlement is by manager's checks on debtor banks in favor of creditor banks. In such cases the creditor banks send clerks to the clearing-house to receive the manager's checks, which may be cashed by the debtor banks, exchanged for cashier's checks or exchange on another city, or sent through the clearings on another day. Thus, at Salt Lake City, Utah, the manager's check is used, and the same is cashed in the afternoon of the same day. At Louisville, Ky., such checks may be collected or re-cleared, but sometimes they are not presented for several days after issue. At Indianapolis, Ind., Dallas, Tex., and Detroit, Mich., banks exercise the option of collecting their checks or sending them through the exchanges on the following day.

The liability of the clearing-house for manager's checks usually ceases at 3 o'clock on the day of issue, so that when they are carried over, it is done at the risk of the holder. Where banks contribute to the expenses of the clearing-house, in proportion to their average daily clearings for a given time, they often prefer to collect on the day of issue, rather than increase their exchanges, and

CITY BANK OF RICHMOND.

\$5000.

Richmond, Va., 189

City Bank of Richmond,

Will pay, upon return of this Certificate endorsed by the
President or Cashier of any of the Associated Banks,

FIVE THOUSAND DOLLARS.

Good only in settlement of Balances in Exchanges.

No.

Cashier.

Certificate of Deposit used by the Associated Banks of Richmond, Va.

thus their expenses, by having the manager's check cleared.

With all its various disadvantages there is one important advantage of the manager's check over settlements in cash at the clearing-house: By its use only one transfer of cash is necessary in making settlements, and thus risk is greatly diminished.

The second mode of settlement, other than on a cash basis, is by borrowing and loaning balances without interest. At Pittsburg this method is practised as a matter of convenience to the several members. After the exchanges have been made and the balances determined, five or six minutes are devoted to this transfer. Banks are not allowed to over-borrow or over-loan under a penalty of a fine of two dollars for each offence.

The third method is that of borrowing and loaning balances upon interest, as practised at Boston.

The fourth method is that of employing some form of certificate. Many of the large clearing-houses provide for a depository to receive in special trust such United States coin as any of the banks belonging to the association may voluntarily deposit with it for safe-keeping, upon which certificates may be issued, to be used in the settlement of clearing-house balances. Such certificates are usually issued in denominations of five thousand dollars and ten thousand dollars, and are negotiable only among the associated banks. Many of the clearing-houses impose a fine for their transfer to any other party than a member of the association.

Coin certificates were devised by F. W. Edmunds, of New York, and came into use about 1857. The Bank

of America first acted as a depository, but after the beginning of the greenback epoch, the associated banks chose the United States Sub-treasury as such depository, for both gold and currency. When the new clearing-house in Cedar Street was occupied, the gold deposits were transferred to the magnificent vaults with which it is provided, and these at the present time hold a very heavy deposit of gold. The principal cities where gold depository certificates are used at the present time are New York, Philadelphia, and Buffalo.

In cities where United States sub-treasuries are located, banks may deposit with them United States legal tender notes, and receive therefor legal tender certificates from the assistant treasurer, the same to be used in the settlement of clearing-house balances and to be negotiable only among the members of the clearing-house in the city where they are issued. At Philadelphia these certificates are issued in denominations of five thousand dollars and ten thousand dollars; and at Baltimore in denominations of ten thousand dollars only. It is required that they be indorsed both by the bank to which they are issued and by the bank which redeems legal tender certificates with them.

Clearing-house loan certificates are issued only in emergencies, as explained in the chapter devoted to that subject. The period during which balances are settled by such instruments lasts usually only three or four months, or until the panic which called them forth has subsided.

The fifth method is by draft on some other city. In some places the option is given of settling in cash, or by

draft, as at Bay City, Mich., Everett, Wash., Frederick, Md., Jacksonville, Fla., Knoxville, Tenn., Norfolk, Va., Rochester, N. Y., and Scranton, Pa. In others, settlements are made exclusively by drafts on another city. Among these are Syracuse, N. Y., Worcester, Mass., Saginaw, Mich., Fall River, Mass., Fremont, Neb., Hartford, Conn., Holyoke and Lowell, Mass., Binghamton, N. Y., and Cleveland, O. Sometimes foreign drafts are used in payments of equal thousands only, as at Wilmington, Del., and Chester, Pa.

About twenty-five per cent. of the clearing-houses of the United States settle by draft on another city, and about the same number settle by manager's check. About seventeen per cent. settle by cash alone, and fourteen per cent. with cash and manager's check or foreign drafts. The rest settle by a combination of two or more of the foregoing methods. Clearing-houses located in New England settle, as a rule, with drafts on Boston or New York, or both. Clearing-houses in the vicinity of Philadelphia usually settle by draft on that city or on New York, and those located in that part of the country lying east of the Mississippi River, settle, more or less, by draft on New York. Settlement is also made by draft on some of the larger interior cities, as Detroit and Omaha.

CHAPTER VII

CLEARING-HOUSE EXCHANGES

Location of Clearing-houses — Arrangement of Furniture—
Hour of Making Exchanges—Clearing Matter—Character
of Indorsements—Messengers and Settling Clerks—Con-
ducting the Exchanges — Determining Balances—Two
Clearings a Day—Detroit Plan of Handling Collections.

No city has more than one bank clearing-house. The location of the clearing-house is always as near the centre of the banking district as possible. It is especially important that this should be so in a large city, where the banks are numerous, and often scattered over a considerable area. None of the associations, except the one at New York, owns its clearing-house property. Instead, the various organizations occupy rented quarters, usually in one of the banks belonging to the association, and these they have equipped with the necessary furniture, stationery, and desks for the several members.

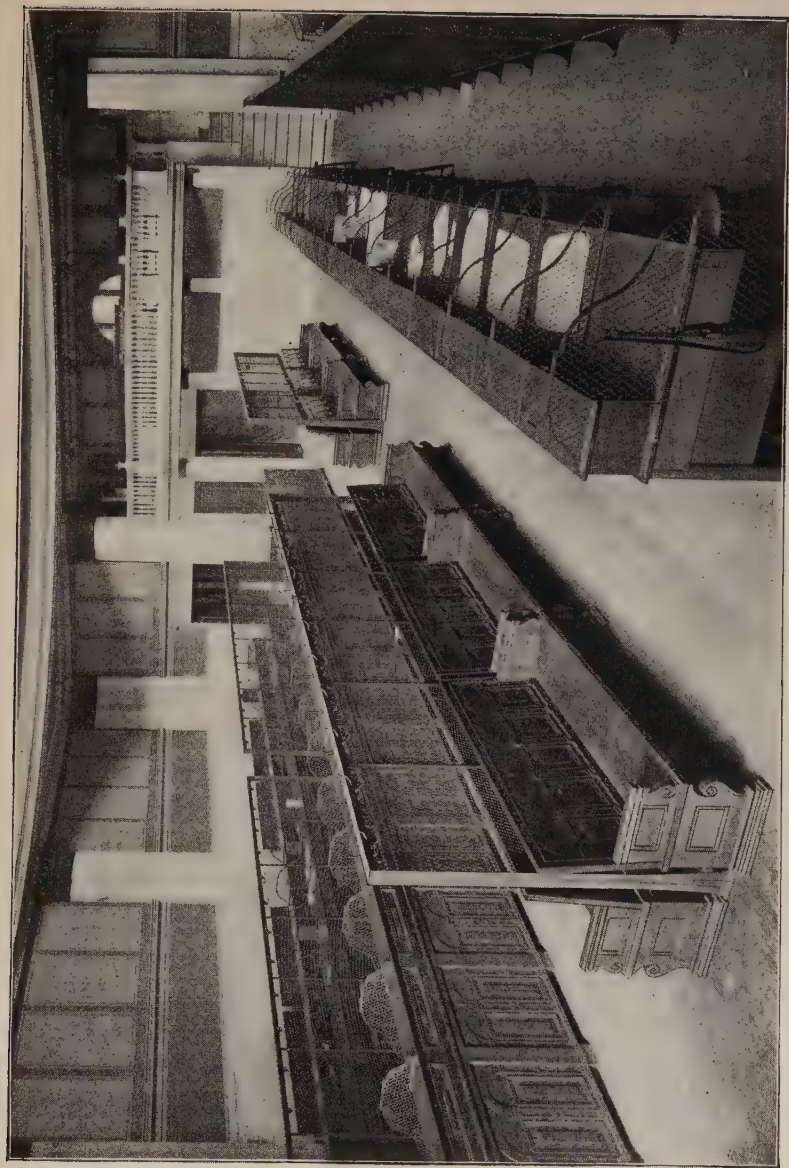
The desks are sometimes arranged in straight rows, and sometimes in elliptical curves, and in a few cases they are placed like the desks in a school-room. It is not uncommon in small places for the clerks to meet and make their exchanges around a table, and occasionally the same rule prevails in large centres.

Many ingenious contrivances are wrought out in some of the exchange-rooms, as well, also, as unique features

of decoration. For example, on the walls of the room at Buffalo is an ideal conception of the leading clearing-houses of the country, with New York in the centre and the large cities grouped around it. At Pittsburg the arrangement of the desks, lights, and manager's quarters is unexcelled for beauty and artistic taste, except it be at New York. The manager's desk is connected by a pneumatic tube with the bank below, through which small sums of money are blown when needed to make change in the settlement of balances. At Providence there are two rows of desks, with that of the manager at the end. Each bank is represented by a single clerk. Immediately upon his arrival at the clearing-house he deposits with the manager's assistant a credit ticket, and then proceeds to deposit his items in stationary boxes, located on the desks of the members. Each clerk has a key to his own box, and, after distributing his checks, he takes his place on the inside of the row of desks and there performs the duties of a settling clerk.

Many of the smaller clearing-houses do not rent permanent quarters, but the banks belonging to the association act as clearing agents in rotation, the cashier or some other official of the bank where the clearings for the time being are made, acting as manager. At Hastings, Neb., for instance, the banks alternate weekly, at Jacksonville, Ill., monthly, and at Bay City, Mich., once in two months. At Lowell, Mass., a clearing-bank is chosen at each annual meeting of the association.

Each clearing-house determines for itself the time when its daily exchanges shall be made, and as practically the only criterion in selecting an hour is the convenience



The Clearing-room of the New York Clearing-house.

of the several members, it is not surprising that there is a wide diversity among associations in this regard. From 8.30 o'clock in the morning, when the first exchanges are made at Philadelphia, Pa., the time varies to 3.15 o'clock in the afternoon, when the exchanges are made at Chattanooga, Tenn. All hours between these are occupied, most of the associations, however, clearing before 12 o'clock. On Saturdays, in a majority of cases, clearings are made at an earlier hour than on other days, in order to enable the banks to close the business of the day earlier than usual.

When the exchanges take place at 10 o'clock, or earlier, it is customary for the members to clear the items received in the morning mails, or, in some cases, to include only the larger items so received, and to send those received in the afternoon and the smaller amounts, if any, left over in the morning, through the exchanges on the following day. But when the exchanges take place as late as 3 o'clock, most of the items received are cleared the same day.

The rules regulating the kinds of matter to be cleared are by no means uniform. A few of the organizations specify in their articles of association what shall be considered proper clearing-matter. Of such rules, the following, from the by-laws of a prominent Western clearing-house, is one of the most common :

“ Proper matter for clearing shall consist of checks, drafts, manager's certificates, certificates of deposit, demand or matured, and any other matter specially agreed upon, until notice is given to the contrary, and any bank clearing paper not proper shall be fined.”

In some places certain kinds of items cannot be cleared unless certified on the previous day. For example, at Baltimore, Md., and Topeka, Kan., drafts, notes, and bills of exchange must be certified before being cleared; at Dayton, O., and Birmingham, Ala. (except in rare cases at the latter place), notes and bills of exchange must be certified; but in Holyoke, Mass., Los Angeles, Cal., Lowell, Mass., Springfield, Mass., Springfield, O., Toledo, O., Worcester, Mass., and some other cities, notes, drafts, and bills of exchange are cleared without certification. With the occasional exception of a note payable at a bank, which bank advises the bank holding the note that it will pay the same, if sent through the exchanges, notes, drafts, and bills of exchange are not cleared at Cincinnati, O., unless certified on the previous day. A draft on a party located at a distance is occasionally cleared, the arrangement being made by telephone. Checks, acceptances, coupons, and notes due are cleared at Chester, Pa. Only regular checks and drafts are cleared at Denver, Col. In addition to the regular checks, express money-orders are cleared at Des Moines, Ia., through a bank designated by the express company as its depository.

At Fargo, S. Dak., the unusual custom prevails of sometimes clearing, in addition to the checks on city banks, items for out-of-town correspondents. For instance, Bank A sends through the exchanges to the other members the items which it has received on their correspondents; and the other members, in turn, clear the items which they hold on A's correspondents.

All checks, notes, acceptances, or other items received by any member at New Haven, Conn., against an asso-

ciate member are proper matter for clearing. Any member at New Orleans, La., voluntarily accepting a cashier's check in settlement of a clearing-house balance, is not allowed to pass the check through the clearings.

Notes and drafts are not sent through the exchanges at Rockford, Ill., nor are notes and bills of exchange at St. Paul. As a rule, only regular checks are included in the exchanges at Savannah, Ga., and never drafts, notes, and bills of exchange. Usually notes, acceptances, and bills of exchange are certified at Scranton, Pa., on the morning of the day they are sent through the clearing-house. At Waco, Tex., only checks and manager's certificates, certified, used in settlement of balances at the clearing-house, are passed through the exchanges.

In the exchanges at Washington, D. C., all checks may be cleared and all sight drafts, certificates of deposit, matured acceptances payable at the bank, and any other matter certified or specially agreed upon, until notice is given to the contrary; but promissory notes cannot pass through the exchanges unless certified or authorized by the member-bank where the same are payable. The rule at Youngstown, O., is that only items, which on their face are unconditional demands upon a bank, are payable through the clearing-house.

The question of restricted indorsements has been widely discussed in banking journals and at bankers' conventions, especially in recent years, and, as a measure of self-protection, most of the large clearing-house associations have adopted resolutions, declaring that items bearing restricted indorsements, such as "For Collection," "For Account of," "For Credit of," and "For Deposit,"

shall be considered improper matter for clearing, unless specially guaranteed by the clearing-bank. Items indorsed in bank, or "Pay to the order of —," or "Pay to — or order," are not regarded as bearing restrictive indorsements.

Each bank, before sending its exchanges through the clearing-house, is required to indorse them with its number and the words "Received payment through the — Clearing-house," or such other indorsement as the clearing-house committee or the association may determine upon. Evidently it would require a prodigious amount of labor to write the indorsements upon the items, and; indeed, it would be a physical impossibility in many of the banks of the large cities to do so. Hence, an official stamp is used and the same is usually accepted as a guarantee of all previous indorsements, whether written or stamped. It is not construed as supplying or guaranteeing to supply a missing indorsement.

The number of messengers required to transport the exchanges to and from the clearing-house varies widely in different cities. When the business is light, as in some of the smaller cities, one person acts as both messenger and settling clerk, while in some of the larger cities the exchanges of some of the banks are so heavy that four or five messengers are necessary to transport them. Each bank, in addition, is represented by one settling clerk, who, as a rule, is a young man, quick and accurate in arithmetical calculations.

Checks are taken to the clearing-house, bound together with rubber bands, or enclosed in large envelopes, the items that go to each of the other members being

kept separate. If the bulk is not too great, they are often carried in the hand, but it is customary in the large cities to transport them in leather bags or cases.

The usual rule is that, immediately upon his arrival at the clearing-house, the settling clerk shall deliver to the manager, or the assistant manager, a ticket containing the amount of the items brought from his bank. An exception to this rule, in a large clearing-house, is found at Baltimore, where the clerks, instead of delivering tickets, call off the amounts to the manager, while he enters them upon his proof-sheet. An important exception is also found at Cincinnati, where no entries of any kind are made by the manager upon his settling sheet until the proof has been made. This done, the clerks report their credit and debit balances, and these alone are entered.

Before the exchanges begin at West Superior, Wis., there is a roll-call of the clerks. The only advantage in this unusual procedure would be the detection of the absence of a member, and as this must necessarily appear before the exchanges are completed, it seems to be an unnecessary expenditure of time.

A fine is usually imposed upon a member for being late at the clearings, and if the representative fails to appear before a specified time, the member is excluded from the exchanges of the day, and must make its clearings at the counters of the other banks. The fines commonly vary from one dollar to five dollars, but at Milwaukee they are unusually high. For the first five minutes or part thereof, the fine in that city is three dollars; for the second five minutes or part thereof, ten dollars; and over ten minutes late, twenty-five dollars.

Two methods of delivering items in the exchange-room are in vogue. In the one case they are delivered by all the clerks simultaneously; in the other, by each clerk as soon as he arrives at the clearing-room; but the exchanges must all be made before a specified time.

When the clerks begin the exchanges at the same time, they all start upon the signal from the manager, with their items on their arms, or in bags or cases strapped over the back, and proceed in the same direction, passing along the desks until they have deposited all their paper. In the large cities, where the clerks are numerous, order and method in delivery are necessary to prevent confusion and to save time. But in small cities, where the clerks usually deliver their items as soon as they arrive, more liberty is allowed in personal conduct; also by this method an opportunity is afforded to the less proficient clerks to arrive early and list their items as fast as they are delivered from the other banks.

Where the exchanges are made around a table, without any net-work or division of any kind between the clerks, it sometimes happens that bundles of items, thrown carelessly on the table, are entered by the wrong clerk. To prevent errors of this character, at Cincinnati four different colors are used for slips containing lists of items and attached to the exterior of the bundles, all the slips on the bundles going to a particular bank being of the same color. Thus, clerks representing members number one, two, three, and four, sitting alongside of each other at the table, have different colored slips, and the same colors are used, correspondingly, by members number five, six, seven, and eight, and so on around the table.

Also the debit and credit slips brought by the settling clerks are of different colors.

The speed with which the business of a clearing-house is transacted seems almost incredible. The actual time required to make the exchanges varies from one and one-half minutes to ten minutes. When the exchanges are made simultaneously, the time varies, as a rule, in proportion to the number of members. In view of the shortness of the time required to make its exchanges, the New York Clearing-house affords, perhaps, the best example in existence of the success of modern business methods, as compared with the old ways of doing things. The clearances exceed on the average one hundred million dollars a day, and yet this enormous amount of paper is exchanged between the banks in ten minutes, and often in less time.

When the clearings have been made, the next step is for each settling clerk to determine the amount of the balance of his own bank, which is found by taking the difference between the amount brought to the clearing-house and the amount taken away. There is practically no exception to this rule. A certain amount of time is allowed for the proof, and for each error remaining undiscovered at the expiration of the allotted time a fine is usually imposed. At the end of a certain time thereafter it may be doubled, and still later it is often quadrupled.

In some cases the settling clerks do not remain until the proof is made, but leave for their respective banks as soon as they make out their tickets for the amounts brought, amounts received, and balances. If the manager or his assistant in charge of the proof-sheet finds,

after he has made all the entries and additions, that his work does not prove, he first determines whether the error was made by one of the settling clerks or by himself. If by one of the clerks, it is usually discovered in a short time at the bank, whereupon the latter reports the error to the manager at the clearing-house, either by messenger or by telephone. If the bank fails to report the error in due time, the manager takes the credit and debit slips and finds it.

At Cincinnati no fine is imposed upon a clerk or his bank for an error in a slip, if it is discovered and reported promptly to the manager. At Louisville, however, a fine of two dollars is imposed, without regard to time limitations.

All that has been said thus far applies to those clearing-houses that clear only once a day. But there are in the United States five clearing-houses that make practically two clearings a day. These are at Philadelphia, Pa., Fall River and New Bedford, Mass., Detroit, Mich., and San Francisco, Cal. The details regarding the exchanges at Philadelphia are set forth in the chapter on the Philadelphia Clearing-house. At Fall River an amendment was made to the Constitution, May 27, 1895, as follows:

“The cashier of the clearing-house shall be the manager of the clearing-house, and the settling clerks shall be under his direction while at the clearing-house. An exchange of checks and other items for clearing shall be made daily at 11 o'clock A.M., and the final clearing at 1.30 P.M. The debtor members shall pay to the manager of the clearing-house the balances against them by 2 P.M., and on or before 2.15 o'clock the creditor members shall

receive the respective balances due them, except that there shall be but one clearing on Saturdays, at 11 o'clock A.M."

The first clearing at Fall River is made at 11 o'clock, in order that the book-keepers at the banks may have most of the checks for entry as soon as possible. This is simply an exchange of checks, notes, and drafts, payable at the bank, and they are thus placed at the bank where they are payable before noon. The footings of this clearing are carried on the various slips to the second clearing at 1.30 o'clock, when balances are settled. This has been the custom ever since the inauguration of the clearing-house.

At New Bedford, however, from the date of organization in September, 1888, until February, 1890, there was but one clearing a day, namely, at 12 o'clock. For some months prior to the annual meeting in February, 1890, there had been considerable opposition to clearing at that hour, on the part of one member of the association, because thereby it was obliged to carry over, occasionally, large amounts of checks on other banks, taken in payment of notes and cotton-drafts, for which in some cases it was required, by special arrangement with correspondent banks, to remit at par upon the day of payment. So strong was this opposition that the question finally threatened to disrupt the organization, and, as a compromise measure, it was at last decided to change the hour to 1 o'clock for a final clearing, which nominally was and still is the hour of closing for the national and savings banks of the city. At the same time a preliminary exchange was provided for, the same to take place at 12

o'clock, and this arrangement worked with partial success until March, 1895, when the hour for the preliminary clearing was changed to 11.30. This was done in order to facilitate the work of the book-keepers in entering the greater part of the day's items.

This preliminary exchange at New Bedford includes all checks received in the ordinary course of business before 11 o'clock, including those received through the early mails, together with the notes and acceptances maturing that day. Probably ninety per cent. of the day's items are thus disposed of before the final clearing. The latter includes comparatively few items, although they frequently exceed in amount the items of the preceding exchange, since cotton-drafts and corporation notes are usually paid between 12 o'clock, noon, and 1 o'clock.

The association at Detroit, Mich., pursues a method in handling collections unlike that followed anywhere else in the United States. By Section 12 of the Constitution of the Detroit Clearing-house, the hour designated for making the exchanges is fixed at 12.15 P.M. There is, however, a previous exchange at 9.30 A.M., which was authorized by amendment to Section 12 of the Constitution, on November 30, 1898. The following is the text of the amendment:

"Precisely at 9.30 o'clock A.M. on each secular business day, except Saturday, a representative from each member shall be present at the clearing-house, and at that hour such representatives shall deliver to the representative of each of the other members the promissory notes, acceptances, drafts, or other obligations due and payable on that day at the offices of the several members.

Such notes, acceptances, drafts, or other matured paper shall be accompanied by a separate list for the member at whose office it is paid. A duplicate list shall be checked and receipted by the messenger representing the member at whose office the obligations thereon listed are payable, and such receipted list shall be handed back to the representative of the member delivering the items, as above. Precisely at 3 o'clock P.M. a representative of each member shall be present at the clearing-house, and settle with the representatives of such members as shall have delivered items to his bank at the morning meeting of that day, either by returning such items or the proceeds thereof in the shape of the obligation or obligations of his bank payable through the exchanges of the following day. The representative of the member with whom such settlement is made shall surrender to him the receipt taken at the morning meeting for such items; the surrender of such receipts to be an acknowledgment that all items thereon listed have been properly accounted for.

“ The manager of the clearing-house shall have charge of the representatives of the members at the meetings for the purpose indicated, and the same fines shall be imposed for failure to be properly represented promptly at any meeting, for errors, or for disorderly conduct, as the members are liable for in the clearing of exchanges; and the work of delivering obligations or settling therefor shall not be delayed longer than five minutes.

“ In case of the failure on the part of any member either to return all the obligations received by it or to account therefor as provided above, such action shall be

considered an infraction of the rules of the clearing-house, and a fine of two dollars shall be imposed for every such infraction.

“ In case of failure of any member to be represented on the morning of any day, such member shall deliver to the other members at their respective offices the obligations due on that day, listed and to be receipted for; but such obligations may be settled for at the afternoon meeting, and, in case of failure of any member to be properly represented at the 3 o'clock meeting for settlement, such member so failing to be on time shall, before 3.15 o'clock, deliver to the other members settlement for the obligations due on that day.”

CHAPTER VIII

CLEARING COUNTRY CHECKS

The Growing Use of Checks—The Small Percentage of Actual Money Used in Business—The Difficulty of Country Checks — Remedies Proposed — State and National Clearing-houses—The Long Island Experiment—The Success at Sedalia, Mo.

The use of bank-checks and drafts in business transactions in the United States is more extensive than in any other country, and the tendency to such use is constantly on the increase. So popular have checks and drafts become that the increase has more than kept pace with the increase in business, which means that the proportion of money in use to the volume of business transactions has been on the decline.

The use of checks and drafts is proportionately greater in the large financial centres than in the small towns. According to reports made by the national banks to the Comptroller of the Currency in 1881, the receipts in New York City, on June 30th of that year, were made up of ninety-eight and seven-tenths per cent. checks, drafts, etc., and one and three-tenths per cent. gold coin, silver coin, and paper money.

In other cities the checks and drafts were 94.38 per cent., and the money 5.62 per cent. In the country out-

side of these places the checks and drafts consisted of eighty-one and seven-tenths per cent., and cash eighteen and three-tenths per cent. Thus the larger the financial centre, the greater the proportionate use of checks and drafts.

The introduction of the clearing-house system has greatly facilitated the use of substitutes for money, by furnishing a much safer, more convenient, and more expeditious method among banks than previously existed, of exchanging items drawn on each other and settling the balances resulting from the same. With but two exceptions, to be explained in another place, the exchanges passing through the clearing-house are confined to items drawn upon members or upon non-members clearing through members. That is to say, checks and drafts received by a bank-member of a clearing-house in any city drawn upon another member of the same clearing-house, from whatever source the checks may have been received, are liquidated through the clearing-house, but checks and drafts received by a member of a clearing-house drawn upon some bank located at a distance, and not a member, nor clearing through a member, are regarded as improper matter for clearing.

Now it is evident that any bank receives from its customers in the daily course of business, checks drawn on banks in distant towns and cities, but before a bank can realize any profit from such checks, it must collect them. That is, it must send them to the banks upon which they are drawn, or to some other bank which will act as its agent, for payment. There could be no objection on the part of the banks to such business methods, if the cus-

tomers depositing such items did not expect credit therefor until they were collected, and if they were willing to pay for the trouble and expense of collection. But such is not often the case.

When A, who lives at a distance from a financial centre, buys a bill of goods from B, living in the city, and sends a check drawn on his local bank for payment of the amount, he subjects someone to the expense of collecting the check, and further, someone is out the use of the money until the collection has been made. B deposits the check in his bank in the city and expects immediate credit therefor; and, owing to keen competition between the banks in the city, the bank hesitates to demand from him the cost of collecting his foreign items, through fear that he will withdraw his account and deposit with some other bank that makes no such charge. Thus the banks in nearly all the large cities of the country spend many thousands of dollars annually collecting items, for which they receive no return whatsoever.

A remedy for this injustice seems impossible so long as there is no concert of action among the banks. It is not surprising that this weakness in banking methods should attract wide-spread attention among bankers, and that many remedies should have been proposed. The question has been asked, why is it that bankers cannot find a way out of this difficulty through a state or national clearing-house? Since it is universally recognized that the clearing-house has been a uniform success in all of the leading cities of the country, not only as a medium for the exchange of items, but also as a means of bringing about harmonious action among the banks on nearly

all questions of mutual concern, why is not a national clearing-house feasible?

In bankers' conventions and in current bank literature, particularly in the last decade, many remedies have been proposed for the difficulty that must be met. In States where the bank associations are divided upon the group system, many have favored a clearing-house for the banks of each group. Others have preferred a clearing-house for the banks of all the groups of the State.

It has been proposed that a clearing-house or collection agency be established in New York City for all the banks east of Chicago. A scheme has been set forth for the establishment of a clearing-house at Chicago for all the country banks within a radius of five hundred miles, and for all others that might desire to avail themselves of its facilities. But none of these plans has been carried into execution. However, several attempts have been put into practical operation to clear country collections, to two of which we shall give attention in this place, namely, the one in Sedalia, Mo., and that on Long Island, N. Y.

The bankers of Sedalia, Mo., work together more harmoniously than those in most other cities, and have experienced great benefit from their united action. In 1893 the Sedalia Clearing-house Association was formed, and in a short time thereafter the need of a closer union was felt to be desirable. Frequently the members met to discuss important matters, which resulted in uniting the banks in closer bonds of sympathy. A feeling of friendliness was cultivated which removed many of the petty jealousies that frequently exist, not only in the

smaller cities and towns, but in the larger ones as well. The good feeling thus brought about has caused the banks to reach out and take advantage of opportunities to help themselves and one another, and has resulted in the formation of a clearing-house in Sedalia that clears checks through its members for each other, to the extent of its members, customers, and correspondents. Each morning the checks on twenty-three banks are thus cleared, thereby proving the practicability and good sense of organization.

In 1891 the Queens County Bank, Long Island City, chiefly through the activity of its president, put into successful operation a clearing system for the banks of Long Island. The plan by which this bank does the business is as follows: At 7 o'clock in the morning the clerks who make a specialty of this branch of the bank's work arrive and assort the bundles of country checks received from New York City and other banks in the early morning mail. These items, which amount to over fifty thousand dollars daily, arrive at the Queens County Bank the day after they have been deposited in New York, and are ready to mail to their destination by 9 o'clock of the day on which they are received. Drafts are obtained in payment from the banks upon which they are drawn, either the night of the day on which they are sent or early the following morning. The banks from which they are received are credited with their respective amounts, and are paid by the clearing-bank by a weekly remittance, after deducting a small rate of exchange to cover the expense of stationery, clerk-hire, supervision, and the exchange, which the bank is compelled to pay to some of

the Long Island banks. Thus the Queens County Bank has practically become a clearing-house for the exchange of paper between the country banks of Long Island and metropolitan banks, and that the latter regard it as a saving of both time and money is evident from the fact that most of the banks continue to make their exchanges through that channel.

What has recently been put in operation in Boston is another instance, and this will be found described in detail in another part of this volume.

CHAPTER IX

TYPICAL JOURNEY OF A COUNTRY CHECK REMITTED FOR A CITY ACCOUNT

The Small Amount of Work Required of Payer and Payee—
The Large Amount of Work Required of the Bank in
which the Check is Deposited and its Correspondent—What
the Receiving Bank Does—What its Regular Correspondent
in the City Nearest the Country Bank is Required to do—
What the Country Bank has to do — An Illustrative
Example.

By way of emphasizing the need of reform in the matter of collecting country checks, a brief glance at the methods current, in various directions, at the present time will be advantageous. A merchant in Massillon, O., buys a bill of goods in New York, amounting to two hundred and fifty dollars, and pays for the same with a check on his local bank. The New York jobber from whom the goods were bought makes the proper entries in his records for the check, upon its receipt by him, and deposits the check with his (New York) bank. The receiving teller of the bank in which the check is deposited, after checking it off the deposit slip, enters it, by amount only, in his record of out-of-town checks.

Another clerk enters the check on a sheet headed with the depositor's name, stating date of deposit, place of

payment, and amount for the purpose of making the proper charge thereon. The slip is sent to the jobber, advising him of the charge. The charge itself is made through a book known as the debits of exchange from which the book-keeper posts the charge.

A representative of the corresponding department of the bank receipts for the item on the receiving teller's record, after satisfying himself that the amount has been properly listed thereon. Another representative sorts the check with others on a sorting table, according to place of payment, and then stamps the bank's indorsement on the back of the check.

The check is then laid on the collection enclosure sheet for transmittal to a Cleveland bank, since all Massillon items are collected through that channel by this particular New York bank. The check is next listed on the enclosure sheet, and the footing of the letter containing this item is charged to the collection account of the Cleveland bank.

A record of the item is then made in the foreign cash register, under the account of the bank of Cleveland to which it is forwarded for collection. This record consists of the date sent, the name of depositor, the name of drawer, name of payer, place of payment, and amount, together with any instructions which are to accompany the item, regarding the handling of the same.

After all these details have been completed, the name of the Cleveland bank is filled in on the indorsement stamp. A record is then made on the letter register, showing the name of the Cleveland bank, date when the collection letter is sent, and the total amount of the items

contained in the letter. This record is made in order that the work of the bank may be facilitated in keeping track of its remittances, so that should an acknowledgment of the same not be promptly received, a tracer may be sent out without delay to secure the desired information. Manifestly, it is essential to the bank to know that all letters containing enclosures are promptly and properly acknowledged. An envelope is then addressed, the letter folded and enclosed, the envelope sealed and stamped, and finally examined to see that it is properly addressed, sealed, and stamped. The letter is then mailed at the New York Post-office.

The Cleveland bank, on receipt of this letter, enters in detail upon its books those items contained in it which are payable outside of Cleveland. It then writes a letter to its Massillon correspondent, enclosing the two hundred and fifty dollar check for collection, makes a record of the letter and enclosure, addresses an envelope, in which are placed the letter and enclosure, and seals, stamps, and mails the letter.

The Cleveland bank next acknowledges the receipt of the item, by drawing and remitting a check on its New York correspondent for the amount, less the usual charge for exchange. It writes a letter, enclosing the check, takes a record of the same, addresses an envelope, puts in the enclosures, then seals, stamps, and mails the letter.

The check thus received by the New York bank is checked off the remittance letter, is stamped with the paid stamp of the collecting bank, is listed upon a slip with the other items received by the bank the same day upon the other New York bank on which the check

received by it is drawn. The items thus made up are collected through the clearing-house. The paying bank checks off the items paid through the clearing-house from the slip on which they are listed, examines the check in question to see that it is properly drawn, dated, and signed, and that the signature is genuine, charges the check to the Cleveland bank's account on its books, cancels the check, enters the checks on a voucher-list, and at the end of a given period returns the check to the Cleveland bank.

The Cleveland bank, upon receiving its account current, voucher-list and cancelled vouchers, immediately checks off the vouchers and verifies the statement of account. It then compares the checks with the stubs in the check-book, and examines the checks themselves to ascertain if the indorsements are correct or if any alterations have been made thereon, and at last files the checks away for future reference, including the one that has been used in this particular case under consideration.

The letter from the Cleveland bank to Massillon, containing the item, is mailed the same day that the check is received from New York. It is received in Massillon the day following. After carefully examining the check to see that it is properly drawn and dated, and that the signature is genuine, the Massillon bank charges the check to its customer's account and then draws its check on Cleveland, less the usual charge for exchange, in payment of the same. It next writes a letter, enclosing the check, takes a record of the same, addresses an envelope, puts in the enclosures, and then seals, stamps, and mails the letter.

The customer in due course has his account made up, checks off the cancelled checks returned by the bank from the voucher-list, compares the checks with the stubs in his check-book, examines the checks to ascertain if the indorsements are correct or if any alterations have been made, and finally files them away for future reference.

The Cleveland bank, upon the receipt of the remittance from its Massillon correspondent, completes its records by filling in the date of the receipt of the remittance and the amount of exchange charged by the Massillon bank.

The check thus received is listed by the Cleveland bank upon a slip containing all the items received by it the same day upon the other Cleveland bank on which the check is drawn. The items thus made up are then collected through the clearing-house.

The paying bank checks off the items paid through the clearing-house from the slip on which they are listed, examines the check in question to see that it is properly drawn, dated, and signed, and that the signature is genuine, charges the check to the Massillon bank's account on its books, cancels the check, enters the check on the voucher-list, and at the end of a given period returns the check to its correspondent, the Massillon bank.

The Massillon bank, upon receiving its account current, voucher-list, and cancelled checks from the Cleveland bank, immediately verifies the statement of account, compares the checks with the stubs in the check-book, and examines the checks themselves to ascertain if the indorsements are correct or if any alterations have been made in them, and finally files the checks away for future reference.

Woodward Bros.

No 1080

Sag Harbor, N.Y. May 19th 1890



THE PECONIC BANK
OF SAG HARBOR
NEW YORK CITY

To the order of

Barry Coleman & Co. \$43⁵⁶/₁₀₀

Forly three & ⁵⁶/₁₀₀ ————— Dollars

Woodward Bros

Fac-simile of the Check the Journey of which is Shown on the Map on Page 77.

In order to effect the collection of the afore-mentioned check, drawn on a country bank and remitted to New York in payment of an account, two checks had to be drawn; four letters had to be written; four cents in internal revenue stamps were used; eight cents in postage-stamps were used, and seventy-five or more handlings of the checks were involved by a score or so of clerks, in five different banks, located in three different cities.

Lest the picture should seem to be overdrawn—for, in fact, that which has been presented is only an average case—the following account of the actual travels of a check, of much smaller size and drawn upon a bank much nearer New York than Massillon, is submitted. It is illustrated by a reduced fac-simile of the check itself and the indorsements that it received in transit.

The check, which was for forty-three dollars and fifty-six cents, was drawn by Woodward Brothers, of Sag Harbor, N. Y., and paid to Berry, Lohman, & Rasch, of Hoboken, N. J., who deposited it in the Second National Bank of Hoboken. This bank sent it to Harvey Fisk & Sons, of New York, who, having no regular correspondent in the neighborhood of the bank on which it was drawn, sent it, along with other collections, to their Boston correspondent, the Globe National Bank. The Globe National Bank of Boston, for reasons that are not apparent, sent it, presumably with other items, to its correspondent at Tonawanda, N. Y., namely, the First National Bank of that city. The Tonawanda bank, evidently realizing that the check had wandered far out of its course, and in an effort to get it nearer home, transmitted it to the National Exchange Bank of Albany, which insti-

FOR CREDIT
THE FIRST NATIONAL BANK.
OF PORT JEFFERSON, N. Y.

F. A. KLINE, Cashier.
Endorsement Guaranteed.

PAY TO THE ORDER OF
Any Bank or Banks
ALL RESTRICTIVE ENDORSEMENTS GUARANTY
The First National Bank
TONAWANDA, N. Y. BANKER.
HENRY P. SMITH, Cashier.
HOWELL M. RIVERHEAD, L. I.

Pay GLOBE NATIONAL BANK,
Boston, or order.

HARVEY FISK & SONS.
TO THE ORDER OF STATE BANK.

PAY H. M. REEVE,
RIVERHEAD, N. Y.

Pay CHASE NATIONAL BANK
NEW YORK.

Pay MAYBANK, Cashier.
Queens, N. Y. Bank of Hoboken.

Pay BERG, L. M. & RASCH,
Hoboken, N. J.

PAY TO THE ORDER OF
ANY NATIONAL OR STATE BANK
BANKER TRUST CO.
The Second National Bank
OF HOBOKEN.

PRIOR ENDORSEMENTS GUARANTEED
CASHIER

Pay Any National or State Bank,
OR ORDER.

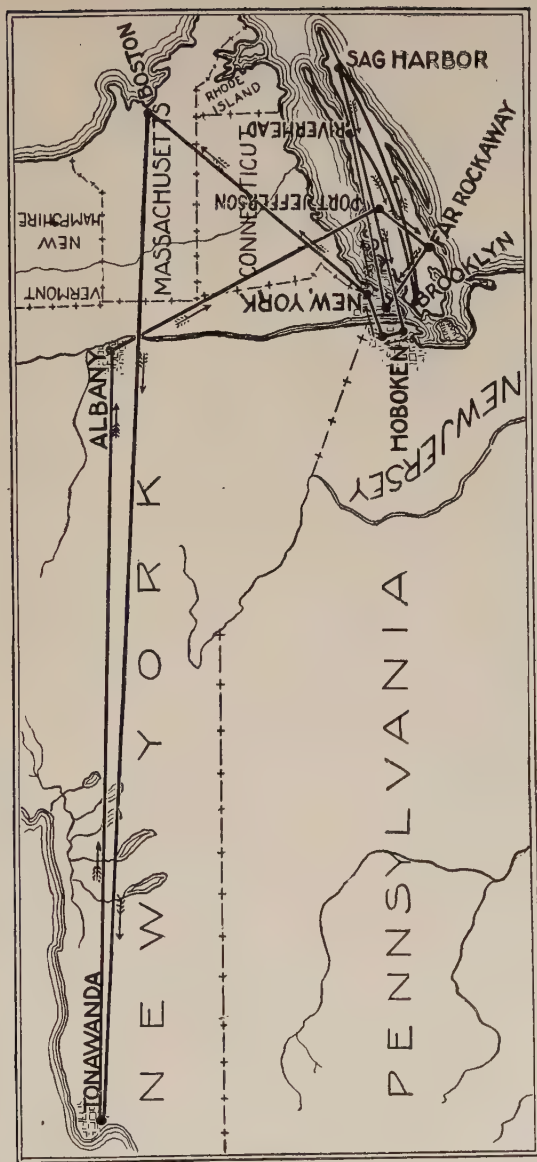
GLOBE NAT'L BANK, BOSTON
J. O. K. F. Cashier

Fac-simile of the Back of the Check showing the numerous Indorsements it bore on finally reaching the Bank on which it was drawn.

tution, pursuing the same commendable policy, remitted it to its correspondent at Port Jefferson. The First National Bank of Port Jefferson, which thus got possession of the check, again diverted its course by enclosing it to the Far Rockaway Bank. The Far Rockaway Bank sent it back to New York, namely, to the Chase National Bank, and thus this much-travelled check made its second call in the metropolis. The Chase National Bank, it would appear, endeavored to correct the wanderer's course, and so despatched it to Riverhead, to H. M. Reeve. Mr. Reeve, either because he really knew where to send it for collection, or because of a lucky hit, forwarded it to the Queens County Bank of Brooklyn, which finally sent it home to the Peconic Bank of Sag Harbor, on which it was drawn.

The reason why banks forward checks in this apparently unreasonable way, often getting the items far out of their regular course, is easy to explain. It sometimes appears cheaper to the one who has the check in hand to enclose it with other items to some regular correspondent, who, assumedly, is nearer the bank on which the check is drawn, than to hunt up a special correspondent for it alone. Once started, the poor check gets pushed along from station to station, on its erratic course, until such time as, by accident or otherwise, it finds its final lodgement.

The reader may estimate for himself the volume of correspondence which this one check caused, from the time it was drawn by Woodward Brothers until it was paid by the Peconic Bank, and the amount of the postage and cost of clerical work expended upon it. No better argu-



Map showing the Check's Itinerary.

ment than the facts here presented is needed to support the proposition of charging a reasonable sum for collecting out-of-town checks. No better illustration than this could be presented to the business man for demonstrating to him the weight of the burden he puts upon the banking machinery of the community by remitting his check on a country bank, in payment of an account, instead of purchasing exchange.

CHAPTER X

CLEARING-HOUSE LOAN CERTIFICATES

What Clearing-house Loan Certificates Are—Origin—Interest Rates—Uses—First Issue in 1860—The Issues of 1861, 1863, and 1864—Action of Various Clearing-houses in 1873—New Orleans in 1879—New York in 1884—Action of the New York, Boston, and Philadelphia Clearing-house Associations in 1890—General Resort to Loan Certificates in 1893—Emergency Circulation in the South—Boston and Philadelphia in 1895—New Orleans in 1896—Calculations of Interest.

Clearing-house certificates are of two kinds—those issued upon the deposit of gold and those issued upon the deposit of collateral securities. The former are employed in ordinary times, solely as a method of economizing time and labor and reducing risk in handling large sums of money. The latter are employed in times of financial disturbance or panic, and although both are intended for use solely in the settlement of balances at the clearing-house, the circumstances that call them forth, the results effected by their use, and the part they play in banking economy have little or nothing in common. The certificates issued upon the deposit of gold are termed “Clearing-house certificates,” and those issued upon the deposit of collateral security are very properly termed

"Clearing-house loan certificates," with which latter only are we here concerned.

Clearing-house loan certificates may be defined as temporary loans made by the banks associated together as a clearing-house association, to the members thereof, for the purpose of settling clearing-house balances. Such certificates are negotiable, as a rule, only among the members of the association, and are not in any sense to be regarded as currency. They are not even seen by the business community, and do not pass from bank to bank, except in payment of clearing-house balances.

To obtain an intelligent understanding of the real character and purpose of such certificates, it will be well to treat somewhat of the circumstances under which they are issued. In the course of the present century the United States has undergone periodical derangements of business affairs, when confidence was displaced by mistrust, when the payments of debts became difficult, when property values declined, and business houses failed; when industry and trade were paralyzed, and general stagnation ensued in all lines of enterprise. In such times depositors in banks, stricken with fear and sometimes pressed by need, draw out their deposits, in many cases to such an extent as to render it difficult or even impossible for the banks to contract their loans sufficiently to meet the demands thus made upon them. Under our present currency system there is no method of expanding the money volume as occasion demands, whereby the banks can continue their usual loans and discounts, and thus prevent a panic, with all its evil consequences. Hence it is left in a large measure to the financiers of each

community to work out their own remedy, supplemented by such mutual assistance as a courteous regard for each other may dictate, or as business relations may demand.

Quick to see the deficiency in our currency system and the desirability of in some way supplying it, the bankers of New York, nearly forty years ago, devised the scheme of issuing clearing-house loan certificates as a method of relief from momentary stringencies. Subsequently, nearly all the clearing-houses in the great centres adopted the same device, and by their heroic resort to the measure, they have at different times relieved the business community of untold disaster, for which invaluable service they have justly received the grateful recognition of the entire country.

The great value of clearing-house loan certificates consists in the fact that they take the place of money in settlements at the clearing-house, and hence save the use of so much actual cash, leaving the amount to be used by the banks in making loans and discounts, and in meeting other obligations. The volume of currency, to all intents and purposes, is expanded by this means to the full amount of the certificates issued.

The loan certificates are taken out by the clearing-house members through loan committees, especially appointed, and are used, as a rule, only in the payment of balances among the associated banks. Thus, when the stringency in the money market seems sufficient to demand it, the clearing-house association meets and appoints a committee called the loan committee, consisting usually of five bank officers, to act in concurrence with the president of the clearing-house association, who

serves as *ex-officio* member. It is the duty of such committee to meet each morning at the clearing-house and examine the collateral offered as security by the banks, and issue loan certificates thereon, in such denominations and proportions to collaterals deposited as may be agreed upon. In the history of the past the denominations have varied from twenty-five cents to twenty thousand dollars in the different associations, and in proportions varying from fifty dollars to one hundred dollars of certificates, to one hundred dollars of collateral deposited.

These loan certificates bear interest at rates varying from six to nine per cent. per annum, payable by the banks to which they are issued, to the banks receiving such certificates in settlement of daily balances. Hence the interest charged against certain banks must exactly equal and offset that credited to certain other banks. The aim is to fix the rates sufficiently high to insure the retirement of the certificates as soon as the emergency which called them forth has passed by. As a rule, they are retired by the banks which take them out, as soon as they have obtained sufficient cash to meet their daily obligations. Notice is given by the debtor banks to the committee, calling for such certificates as they wish to retire, and the committee gives notice to the banks holding the same, stating that the interest will cease after a specified date. In due course the holders send the certificates to the clearing-house for redemption. Upon the retirement of the certificates, the collateral deposited as security is surrendered by the committee in the same proportion to certificates surrendered as was required for deposit.

It is by no means the general practice for all the members to take out loan certificates when issues are arranged by the association. Some banks are in such condition as to be able to weather the storm without them, while others are weak and in great need of relief. Some banks regard their use of clearing-house loan certificates as a reflection upon their standing, and hence refuse to apply for them until driven to it by sheer necessity. Others regard it as in no way prejudicial to their interests, but rather as a patriotic movement in which all the banks should engage, both for the purpose of assisting their fellow-members and for the welfare of the community as a whole.

The members of the New York Clearing-house especially have distinguished themselves in this regard. However strong certain members may have been, and however easily they might have gotten on without using loan certificates, it has been almost the universal rule for all the members to take out loan certificates whenever the occasion demanded such action on the part of any of the banks. In one instance, when a member-bank refused to share the burdens of the associated banks, it was suspended from the privileges of the clearing-house for more than three months.

The total amount of its balances is not always paid in clearing-house loan certificates by a bank to which such certificates have been issued. Thus, for example, the debit balance of a given bank may be five hundred thousand dollars, which in ordinary times would be paid in money or gold certificates. In a time of panic, a part of this sum, say three hundred thousand dollars, is paid in clearing-house loan certificates and the remaining two

hundred thousand dollars in currency. Another bank, with the same balance, might pay the whole in loan certificates, while still another would pay the full amount without the use of any certificates whatsoever.

The first issue of clearing-house loan certificates occurred in 1860. In the autumn of that year there was a rapid shrinkage in bank deposits, and a corresponding contraction in loans and discounts. The situation grew more and more serious as the end of the year approached. The presidential election was a disturbing factor of more than ordinary significance. Immediately succeeding the election of Abraham Lincoln to the presidency, the situation began to assume a critical aspect. Distrust and uncertainty were universally felt. The banks hesitated to advance loans, and obtained from their customers the payment of obligations as rapidly as possible. Call loans commanded seven per cent., and paper of some of the best houses went begging at twenty-four per cent. In this crisis a meeting of the New York Clearing-house Association was called, and the following resolution was passed:

“ In order to enable the banks of the City of New York to expand their loans and discounts, and also for the purpose of facilitating the settlement of the exchanges between the banks, it is proposed that any bank in the Clearing-house Association may, at its option, deposit with a committee of five persons—to be appointed for that purpose—an amount of its bills receivable, United States stocks, treasury notes, or stocks of the State of New York, to be approved by said committee, who shall be authorized to issue thereon to said depositing bank certificates of

deposit, bearing interest at seven per cent. per annum, in denominations of five thousand dollars and ten thousand dollars each, as may be desired, to an amount equal to seventy-five per cent. of such deposit. These certificates may be used in the settlement of balances at the clearing-house, for a period of thirty days from the date thereof, and they shall be received by creditor banks during that period, daily, in the same proportion as they bear to the aggregate amount of the debtor balances paid at the clearing-house. The interest which may accrue upon these certificates shall, at the expiration of thirty days, be apportioned among the banks which shall have held them during the time.

“The securities deposited with said committee as above named, shall be held by them in trust as a special deposit, pledged for the redemption of the certificates issued thereupon.

“The committee shall be authorized to exchange any portion of said securities for an equal amount of others, to be approved by them at the request of the depositing bank, and shall have power to demand additional security, either by an exchange or an increased amount, at their discretion.

“The amount of certificates which this committee may issue, as above stated, shall not exceed five million dollars.*

“This agreement shall be binding upon the Clearing-house Association when assented to by three-fourths of its members.

* On December 3, 1860, it was voted to increase this limit to ten million dollars.

“Resolved, That in order to accomplish the purpose set forth in this agreement, the specie belonging to the associated banks shall be considered and treated as a common fund for mutual aid and protection, and the committee shall have power to equalize the same by assessment or otherwise.

“For this purpose statements shall be made to the committee of the condition of each bank on the morning of every day before the commencement of business, which shall be sent with the exchanges to the manager of the clearing-house, specifying the following items, namely: 1. Loans and discounts. 2. Deposits. 3. Loan certificates. 4. Specie.”

In accordance with the authority thus given, the first issue of certificates was made November 23, 1860, and the beneficial effect was immediately felt. The banks rapidly extended their loans, deposits increased, and commercial paper, which formerly could not be sold at twenty per cent., was now freely marketed at seven per cent. and eight per cent. On December 22d the issue had reached its maximum limit, namely, six million eight hundred and sixty thousand dollars. The aggregate issue was seven million three hundred and seventy-five thousand dollars. The last certificate was cancelled March 9, 1861, and the total period, from the date of the first issue to the date of the last issue, was one hundred and six days.

But the relief thus afforded was not destined to be permanent. The country was soon plunged into the throes of civil war, and, consequently, distrust and uncertainty as to the future universally prevailed. Business interests were suspended, trade was hampered, and in-

dustry was paralyzed. As a result of the pressure, the association passed a resolution in the following September, authorizing another issue of loan certificates, and on September 19, 1861, the first issue was made. The maximum of twenty-one million nine hundred and sixty thousand dollars was reached on February 7, 1862, and, as will be perceived, was more than three times as much as the maximum amount outstanding at any one time in the preceding year. The total issue was twenty-two million five hundred and eighty-five thousand dollars, exceeding the previous total issue by more than fifteen million dollars. The rate of interest was six per cent., as compared with seven per cent. in the former year, and the collateral used as security consisted of temporary receipts of the United States for the purchase of government bonds, as compared with United States stock, treasury notes, and stocks of the State of New York employed for the same purpose in the preceding issue. The last certificates were called April 28, 1862, more than seven months from the date of the first issue.

In 1863 the association issued certificates for the third time. The first bore date of November 6th, and the largest amount outstanding at any one time was nine million six hundred and eight thousand dollars, from November 27th to December 1st. The total issue was eleven million four hundred and seventy-one thousand dollars, being a little more than one-half the issue of two years before. Interest was charged at six per cent., as in 1861, and United States or New York State stocks, bonds, etc., or temporary receipts, as in 1861, were used as security. The last certificates were redeemed February 1, 1864.

four and one-half months from the date of the first issue.

Owing to the prolongation of the war, with the consequent unrest in business circles, the issue of the certificates, for the fourth time, began March 7, 1864, and reached its maximum, sixteen million four hundred and eighteen thousand dollars, on April 20th of the same year, being an excess of nearly seven million dollars over the maximum amount outstanding at any one time in the previous year. The aggregate issue was seventeen million seven hundred and twenty-eight thousand dollars, being less than one million dollars in excess of the maximum amount outstanding at one time. The rate of interest was six per cent., as in 1861 and 1863, and the certificates were secured by the same kind of collateral as those in the former issue. The final redemption occurred June 13, 1864, three and one-half months after the first certificates were issued.

No more loan certificates were issued until the year 1873, when, for the first time, the clearing-house associations of other cities, seeing their great practical utility, began to avail themselves of their use. In the year mentioned, the association at New York followed the precedent established in 1860, and the same course was taken by the clearing-house associations at Boston, Philadelphia, Baltimore, Cincinnati, St. Louis, and New Orleans. The panic, which called forth such united action was one of unusual severity. It reached its climax in September, and so severe were its ravages that the New York Stock Exchange closed its doors on the 20th of the same month, for an indefinite period, but reopened them ten days thereafter.

No. 3437

TEN THOUSAND DOLLARS.

Loan Committee of the New York Clearing House Association.

\$10,000.

New York, 1873.

~~This certifies that the~~

~~has deposited with the Committee securities in accordance with the proceedings of a Meeting of the Association, held September 20th, 1873, upon which this Certificate is issued.~~
~~This Certificate will be received in payment of balances at the Clearing House for the sum of TEN THOUSAND DOLLARS, from any Member of the Clearing House Association, until December 1st, 1873.~~

On the surrender of this Certificate by the depositing Bank above named, the Committee will endorse the amount as a payment on the obligation of said Bank, held by them, and surrender a proportionate share of the collateral securities held therefor. This Certificate may also be redeemed prior to the 1st of November, if desired.

\$10,000.

Committee.

CANCELLED

Form of Clearing-house Loan Certificate used by New York Clearing-house in 1873. Later Issues differ from this only in the Omission of the Restrictive Date.

The usual resolutions were passed by the Clearing-house Association, authorizing the issue of certificates, and on September 22d the first issue was made. The amount was fixed at the outset at ten million dollars, which, with the announcement that the government would purchase the same amount of bonds, caused an immediate subsidence of the panic, and in less than three days its most acute stages were over. The last issue was made on November 20th, a little less than two months from the date of the first issue, and the last certificates were redeemed January 14th of the following year, the period covered from the date of the first issue to the date of final cancellation having been less than four months. During the two months referred to, certificates to the amount of twenty-six million five hundred and sixty-five thousand dollars were issued. This was far in excess of any previous issue, the nearest approach to it having been in 1861, when, as shown before, more than twenty-two million dollars were taken out. The largest amount outstanding at any one time was twenty-two million four hundred and ten thousand dollars, which occurred only eleven days from the date of issue of the first certificates. Interest was calculated at seven per cent., as in 1860, the rate during the intervening time having been six per cent. Bills receivable, stocks, bonds, and other securities were accepted by the committee as collaterals for the redemption of these certificates.

Attempts on the part of the business community were made in vain to discover what banks had taken out certificates, but such information was very wisely withheld. For more than two months, covering the worst period of

the panic, no weekly statements of their condition were made to the clearing-house by the banks, the object being to prevent a general knowledge of the weak condition of some of the members, which condition, if disclosed, would invite runs upon them.

On September 27, 1873, a meeting of the Boston Association was called, and it was voted to suspend currency payments, and appoint a loan committee, with power to issue loan certificates to the amount of ten million dollars, upon substantially the same basis as at New York. The issues were duly made, and on October 20th the amount outstanding reached its maximum of approximately four million eight hundred thousand dollars.

In like manner, the Philadelphia Association now, for the first time, entered upon the plan so successfully followed in New York since 1860, by appointing a loan committee, with authority to issue clearing-house loan certificates. Such certificates were authorized by resolution, adopted September 24, 1873, and amended October 18, 1873, to read as follows:

“For the purpose of enabling the banks, members of the Philadelphia Clearing-house Association, to afford proper assistance to the mercantile and manufacturing community, and also to facilitate the inter-bank settlements resulting from their daily exchanges, we, the undersigned, do bind ourselves by the following agreement on the part of our respective banks, namely:

“First. That the clearing-house committee be and that they are hereby authorized to issue to any bank, member of the association, loan certificates bearing six per cent.

interest on the deposits of bills receivable and other securities to such an amount and to such percentage thereof as may in their judgment be advisable. These certificates may be used in settlement of balances at the clearing-house, and they shall be received by creditor banks in the same proportion as they bear to the aggregate amount of the debtor balances paid at the clearing-house. The interest that may accrue upon these certificates shall be apportioned monthly among the banks which shall have held them during that time.

“ Second. The securities deposited with the said committee shall be held by them in trust as a special deposit, pledged for the redemption of the certificates issued thereupon, the same being accepted by the committee as collateral security, with the express condition that neither clearing-house association, the clearing-house committee, nor any member thereof shall be responsible for any loss on said collaterals arising from failure to make demand and protest, or from any other neglect or omission other than the refusal to take some reasonable step which the said depositing bank may have previously required in writing.

“ Third. On the surrender of such certificates, or any of them by the depositing bank, the committee will indorse the amount as a payment on the obligation of said bank held by them, and will surrender a proportionate amount of securities, except in cases of default of the bank in any of its transactions through the clearing-house, in which case the securities will be applied by the committee, first to the payment of outstanding certificates with interest; next to the liquidation of any indebtedness of such

LOAN CERTIFICATE

No. 8294

Clearing House Committee of the Philadelphia Banks.

\$5,000.

Philadelphia.

THIS CERTIFIES, that the
has deposited with this Committee, securities in accordance with the agreement of a Meeting of Bank Officers, held September 24, 1873. This Certificate will be received during the continuance of said agreement and of any renewals of the same, in payment of balances at the Clearing House, for the sum of
FIVE THOUSAND DOLLARS, only from a Member of the Clearing House Association,
to whom the same may have been issued, or to whom it may be endorsed by the Manager of the Clearing House.

On the surrender of this Certificate by the Depositing Bank above named, the Committee will endorse the amount as a payment on the obligation of said Bank held by them, and surrender a proportionate amount of the collateral securities; except in case of default on the part of said Bank in its transactions through the "Clearing House Association of Philadelphia."

COMMITTEE.

Form of Clearing-house Loan Certificate used in Philadelphia.

bank to the other banks, members of the Clearing-house Association.'

"Fourth. The committee shall be authorized to exchange any portion of said securities for others, to be approved by them, and shall have power to demand additional securities at their own discretion.

"Fifth. That the clearing-house committee be authorized to carry into full effect this agreement, with power to establish such rules and regulations for the practical working thereof as they may deem necessary; and any loss caused by the non-payment of loan certificates shall be assessed by the committee upon all the banks in the ratio of capital.

"Sixth. The expenses incurred in carrying out this agreement shall be assessed upon the banks in equal proportion to their respective capitals.

"Seventh. That the clearing-house committee be and they are hereby authorized to terminate this agreement, upon giving thirty days' notice thereof, at any stated meeting of the Clearing-house Association."

The issue of certificates made in conformity with the foregoing resolution reached the maximum amount outstanding at one time, namely, six million two hundred and eighty-five thousand dollars, on December 1, 1873.

At Baltimore, on September 24th, the clearing-house association began the issue of certificates, which amounted in the aggregate to one million three hundred and twenty-six thousand dollars. The last of these was retired January 2, 1874, one hundred days after the date of the first issue.

The first certificates at St. Louis were issued on September 25th, and the last of the certificates were cancelled forty-six days thereafter, the aggregate amount having been one million four hundred and seventy-two thousand five hundred dollars.

At New Orleans the maximum amount outstanding (one million and sixty-seven thousand dollars) was attained October 10th.

On September 25th the following resolution was adopted by the association at Cincinnati:

“Resolved, That for the protection of our commercial interests and for the purpose of preventing a drain of currency from the banks and bankers of this city, the banks and bankers of Cincinnati do hereby agree to adopt substantially the plan adopted in New York City, namely, they will not pay out currency on checks, except for small sums, to be optional with the banks and bankers on whom they are drawn; but they will certify checks drawn on balances in their hands, payable through the clearing-house only. When such checks are drawn in payment of notes or drafts, the bank holding the same shall not be required to deliver said paper until after the check in payment has been paid to the clearing-house.

“Resolved, That the above resolution be printed, and slips furnished each bank and banker.

“Resolved, That the Clearing-house Association will issue not to exceed two million five hundred thousand dollars in loan certificates, to be used in settling balances between the members thereof, and that the same will be furnished to members in the proportion of securities put up by each as hereinafter provided. Said certificates shall

not be negotiable, and shall be used only for the purpose of settlement between the banks and bankers in the clearing-house.

“Resolved, That members may deposit as a basis of credit in the association the following described securities, namely, United States bonds, railroad and other bonds, stocks and bills receivable. The United States bonds shall be received at their par or face value, and the other securities shall be valued by a committee of five, who shall be appointed for that purpose, and the same shall be received at seventy-five per cent. of the value so fixed. Each member shall receive a receipt for the securities deposited. The said committee shall have charge of the securities of whatsoever kind deposited by the said banks and bankers, and shall place the same with the safe deposit company for safe-keeping, and the said committee shall sit daily at the clearing-house at the hour for clearing and shall personally supervise the issue of the loan certificates in settlement of balances. The said certificates shall bear interest at the rate of eight per cent. per annum, which interest shall be paid by the banks and bankers using the same and for the time so used.

“Resolved, That these proceedings take effect from and after 9 o'clock to-day, and are not to affect currency transactions or obligations between members prior to this day.”

In the period from September 25th, when the issue of certificates was authorized, to October 9th, when a resolution was unanimously adopted in favor of discontinuing their issue, a period of only fourteen days, certificates to the amount of five hundred and fifteen thousand four

hundred dollars were issued, the last of which were cancelled just six weeks from the date of first issue.

The next report of clearing-house loan certificates was in 1879, when the New Orleans Association alone issued a small amount (fifty-four thousand dollars) to satisfy conditions of a purely local character.

In 1884 the New York Association stood alone in the issue of loan certificates. The amount taken out at this time was large, and was begun early in the year to prevent a wide-spread and disastrous panic. The first were taken out May 15th, and reached twenty-one million eight hundred and eighty-one thousand dollars, their maximum amount outstanding on May 24th, only nine days from the date of first issue. The last certificates were issued June 6th, and the last were retired September 23d, more than four months from the date on which the issue was begun. The total amount was twenty-four million nine hundred and fifteen thousand dollars, being in excess of any previous issue, except that of 1873. The rate of interest was fixed at six per cent., the same as in 1861, 1863, and 1864, and, as security for the redemption of such certificates, bills receivable, stocks, bonds, and other securities were employed.

For the next six years the country was free from any unusual financial disturbances, and hence no occasion arose for extraordinary measures. Finally, however, in 1890, came another period of pressure. Up to midsummer of that year the country had experienced unusual prosperity, but to the observing eye it was apparent that deep-seated forces were at work, which would ultimately cause a wide-spread disturbance in business and financial

circles, if not bring about a disastrous panic. This was evident from consideration of the unsatisfactory conditions prevailing in agriculture and from the unwholesome tendency to overtrading and expansion on every hand. The extension of railroads had been prosecuted throughout the year with more than ordinary vigor, which required the extension of large sums of money upon security. Early in the year the deposits in the banks of New York City began to fall off, and by May 17th the shrinkage had amounted to more than forty-four million eight hundred and thirty-one thousand dollars, of which over thirteen million five hundred thousand dollars consisted of balances drawn out by banks in the interior and in other reserve cities. Boston and Philadelphia were also subjected to heavy drains. After careful consideration, it was decided in each of these three cities to resort to the issue of clearing-house loan certificates, to be used in the settlement of clearing-house balances. New York was the first to take action, and on November 11th, at a meeting of the association, the following resolution was unanimously adopted:

“Resolved, That a committee of five be appointed by the chair, of which the chairman shall be one, to receive from banks, members of the association, bills receivable and other securities to be approved by said committee, who shall be authorized to issue therefor to such depositing banks, loan certificates bearing interest at six per cent. per annum, and, in addition thereto, a commission of one-quarter of one cent for every thirty days such certificates shall remain unpaid, and such loan certificates shall not be in excess of seventy-five per cent. of the mar-

ket value of the securities or bills receivable so deposited, and such certificates shall be received and paid in settlement of balances at the clearing-house."

In pursuance of the authority thus granted, the committee of five was duly appointed, and they proceeded to issue to applying banks loan certificates in form substantially the same as that employed in 1873—elsewhere illustrated—which, in fact, with the exception of the limitation of time, is the form standard with this association.

The first certificates were issued November 12, 1890, and the issue ceased December 22d, amounting in the aggregate to sixteen million six hundred and forty-five thousand dollars; the largest amount outstanding at any one time was fifteen million two hundred and five thousand dollars, on December 12th, and the last certificates were retired February 7, 1891, less than three months from the date of first issue. In order to provide for the retirement of these certificates, in case the collateral should be found insufficient, the boards of directors of the several associated banks passed the following resolution:

"*Resolved*, That any loss resulting from the issue of loan certificates shall be borne by the banks comprising the Clearing-house Association, *pro rata* to capital and surplus, and this resolution shall be ratified by the boards of the respective banks, members of the association, and a certified copy of such consent delivered to the chairman of the loan committee."

On November 27th, five days after special action was begun by the Clearing-house Association of New York,

the clearing-house association at Boston entered upon a similar course, by passing the following resolution :

“ *Resolved*, That a committee of five be appointed by the chair, of which committee the chairman also shall be a member, to receive from banks, members of the association, bills receivable and other securities, to be approved by said committee, who shall be authorized to issue therefor, to such depositing banks, loan certificates bearing interest at 7.3 per cent. per annum, and such loan certificates shall not be in excess of seventy-five per cent. of the market value of the securities or bills receivable so deposited, and such certificates shall be received and paid in settlement of balances at the clearing-house.”

It is worthy of remark that the basis upon which the payment of any loss arising from the issue of loan certificates differed from that at New York, in that in the one case it was required to be paid by the banks in proportion to capital and surplus, and in the other in proportion to the average daily amount of exchanges which each bank had sent to the clearing-house during the preceding year. The resolution bearing upon this point, adopted at Boston, was as follows :

“ *Resolved*, That any loss arising from the issue of loan certificates shall be borne by the banks comprising the Clearing-house Association, *pro rata* according to the average daily amount which each bank shall have sent to the clearing-house during the preceding year.”

It was also voted that this resolution should be ratified by the boards of directors of the respective banks, members of the association, and a certified copy of such consent delivered to the chairman of the loan committee.

Upon deposit of securities with the clearing-house committee and the receipt of certificates therefor, each bank was required to execute and deliver an obligation in the following form :

“ The — Bank has this day received of — loan committee of the Boston Clearing-house Association, loan certificates issued by said committee in pursuance of a vote of said association, passed November 17, 1890, to the amount of — thousand dollars, and has deposited with said committee the securities, a statement whereof is hereto annexed, and said — bank has received said loan certificates on the terms set forth in said vote, and agrees to pay the amount of said certificates, with interest thereon, as provided in said vote.”

The first certificates were taken out November 19th, two days after the adoption of the resolution authorizing such action, and the last were issued December 6th, when the amount reached its maximum of five million and sixty-five thousand dollars. The last of the issue were finally cancelled January 6, 1891, less than two months after the first issue.

On November 18, 1890, similar proceedings were had by the Clearing-house Association of Philadelphia, at which time the following resolution was passed :

“ *Resolved*, That in accordance with resolution of September 24, 1873, as amended October 18, 1873, the clearing-house committee will issue loan certificates to banks applying, and receive them in payment of balances.”

The resolution of September 24, 1873, referred to, has already been quoted. On November 18, 1890, the clearing-house committee passed the resolution which had

been adopted on that day by the clearing-house association, affirming their purpose to issue clearing-house loan certificates as in accordance with the resolution of 1873.

Acting under the authority thus granted, the clearing-house committee began the issue of clearing-house certificates, and the banks desiring to take them out were required to adopt a resolution empowering the hypothecation of acceptable securities, under which resolution the first issue of certificates was made on November 19, 1890, and ceased May 22, 1891. The total issue was nine million six hundred and fifty-five thousand dollars, and the maximum issue (eight million eight hundred and seventy thousand dollars) was reached January 9, 1891. The certificates were all retired, excepting one hundred and seventy thousand dollars issued to the Keystone and Spring Garden National Banks, institutions which were carried down in the panic.

In 1891 Louisville, Ky., issued loan certificates to a small amount, although none were required in the previous year, when New York, Boston, and Philadelphia were employing them extensively. This clearing-house was the only one to use certificates that year, and what further distinguishes this association is that the issue referred to is the only one it has ever made.

Following the panic of 1890 came a period of prosperity, which, to all outward seeming, bore the marks of permanence, but it was only temporary. The clouds which began to appear prior to the advent of the Cleveland administration, grew denser as time advanced, until in April, 1893, it was apparent, even to the superficial observer, that a storm of unusual severity was approaching.

Reports of failures, as given by commercial agencies, showed a rapid increase as the year advanced, and the shrinkage in national bank deposits from May 4th to July 12th exceeded one hundred and ninety million dollars, while the decline in the deposits in State and savings banks was no less surprising. By June, banks all over the country were being forced to the wall. In July, seventy-three national banks failed as compared with twenty-five in the previous month, while the State and private banking-houses showed a mortality equally alarming. By August 1st a panic of great severity was raging throughout the country, and particularly in the great metropolitan centres.

The only avenue of relief provided by the laws was the issue of additional national bank-notes, but to those familiar with the history of the past, it was apparent that the national banks were bound hand and foot by indiscreet legislation, and were therefore unequal to the task of extending the relief so much needed, and which, under more favorable laws, might easily have been supplied. The situation was aggravated in no small degree in the reserve and central reserve cities by the urgent demands made for their reserves by the banks in the interior. So excessive was the drain upon the resources of the banks in some cities, that in many cases they positively refused to respond to the calls of the banks for their reserves, unless such call was accompanied by the assurance that such assistance was an urgent necessity. Such action was prompted by the fact that in many previous instances packages had been returned unbroken after the subsidence of a panic, showing that the contained amounts

had been withdrawn through fear of loss, rather than through the necessity of replenishing reserves.

In the absence of any legal expedient by which the country could escape from the unprecedented condition into which it had fallen, it was left to the financiers in the great cities and to the great corporations accustomed to wrestle with panics in times past, to work out the people's salvation. The remedy that was applied affords one of the finest examples the country has ever seen of the ability of the people when left to themselves to devise impromptu measures for their own relief. The most potent factors in staying the force of the panic were the clearing-house loan certificates issued by the clearing-house associations throughout the country.

At New York authority was duly given, by resolution of the association, for the appointment of a loan committee for the issue of such certificates upon the hypothecation of acceptable collaterals. Immediately upon their appointment, the committee proceeded to issue to applying banks loan certificates, upon the deposit of proper securities.

The issue was commenced June 21, 1893, and ceased September 6th of the same year, the total issue having been forty-one million four hundred and ninety thousand dollars. The largest amount outstanding at one time (thirty-eight million two hundred and eighty thousand dollars) was attained August 20th, which amount remained unaltered until September 6th. The last of the certificates was retired November 1st, more than four months from the date of first issue. These certificates bore interest at six per cent., and were secured by the

No. 647

\$5,000.

FIVE THOUSAND DOLLARS.

Loan Committee of the Boston Clearing House Association.

Boston, 189

This Certifies, That the

has deposited with this Committee securities in accordance with the proceedings of a meeting of the Association, held June 26, 1893, upon which this Certificate is issued. This Certificate will be received in payment of balances at the Clearing House, for the sum of Five Thousand Dollars, from any member of the Clearing House Association.

On the surrender of this Certificate by the depositing Bank above-named, the Committee will endorse the amount as a payment on the obligation of said Bank, held by them, and surrender a proportionate share of the collateral securities held therefor.

\$5,000.

Committee.

Form of Clearing-house Loan Certificate used in Boston.

same kind of collateral as in 1873, 1884, and 1890. The aggregate amount was far in excess of any previous issue. The next largest amount was in 1873, the aggregate, it will be remembered, having been less than twenty-seven million dollars. Beginning with 1860, the issues of clearing-house loan certificates at New York, alone, have amounted to the enormous aggregate of one hundred and sixty-eight million seven hundred and seventy-four thousand dollars, all of which have been redeemed without the loss of a single dollar, and in periods ranging from three to seven months from the date of first issue.

The Boston Clearing-house Association, by resolution, authorized a similar course, and on June 27th the committee began the issue of certificates in denominations of ten thousand dollars and five thousand dollars, respectively, bearing interest at 7.3 per cent., the same rates as in 1873 and 1890.

From August 23d to September 1st the amount was at its maximum—eleven million four hundred and forty-five thousand dollars. The aggregate issue was eleven million six hundred and forty-five thousand dollars, which, it will be observed, is somewhat in excess of one-quarter of the amount taken out at New York. From June 27th, when the first issue was made, to the end of the period, balances were paid at the clearing-house with certificates to the extent of forty-three million one hundred and thirty thousand dollars, which was 38.4 per cent. of the total balances at the clearing-house during the time the certificates were used. By far the largest amount of certificates was employed in September, and so far as single days are concerned, the maximum was

No. 596

Baltimore Clearing House,

Baltimore, 78

This is to Certify:

That the

has deposited with the Committee appointed by the Associated Banks on June 24th, 1893, Approved Securities, which are held as a Special Deposit to secure the redemption of this Certificate in compliance with resolutions adopted by said Banks on the day above named.

This Certificate will be received for the sum of ONE THOUSAND DOLLARS without endorsement, in settlement of balances resulting from the exchanges between the Banks, will bear interest at the rate of six per cent. per annum until redeemed, and will be negotiable only between the Associated Banks.

\$1000

Manager.

Form of Clearing-house Loan Certificate used in Baltimore.

reached September 7th and 9th, the amount on each of these days having been one million and sixty-five thousand dollars. By October 21st the certificates had all been retired and cancelled.

In pursuance of a resolution of the association at Philadelphia, a loan committee was appointed, which issued certificates in denominations of five thousand dollars only, bearing interest at six per cent., as in 1873 and 1890.

The total amount of the issue was eleven million four hundred and seventy thousand dollars, being less by only a small amount than the total issue at Boston. The largest amount outstanding at any one time was ten million nine hundred and sixty-five thousand dollars, on August 15th, all of which was redeemed in due time without loss to any of the members.

At Baltimore certificates in denominations of one thousand dollars, three thousand dollars, and six thousand dollars were issued, bearing interest at six per cent. From August 24th to September 6th the certificates outstanding were at their maximum of one million four hundred and seventy-five thousand dollars, all of which were ultimately retired and cancelled.

The Clearing-house Association at New Orleans followed the action at New York as closely as possible. On June 22d a resolution was unanimously adopted as follows:

“Resolved, That a committee of six banks be appointed by the chair to receive from banks, members of the association, bills receivable and other securities to be approved by said committee, who shall be authorized to issue therefor to such depositing banks loan certificates

No. _____

LOAN · COMMITTEE

OF THE



New Orleans Clearing House Association.

New Orleans, _____ 189

THIS CERTIFIES, That the

has deposited with the Committee, Securities in accordance with the proceedings of a meeting of the Association, held _____, upon which THIS CERTIFICATE is issued. This Certificate will be received in payment of balances resulting from the exchanges; at the Clearing House, for the sum of _____ from any member of the CLEARING HOUSE ASSOCIATION.

COMMITTEE.

Form of Clearing-house Loan Certificate used in New Orleans.

bearing interest at seven per cent. per annum, and such loan certificates shall not be in excess of seventy-five per cent. of the market value of the securities or bills receivable so deposited, the committee reserving the right to call for additional security as in their judgment the same is required; and such certificates shall be received and paid in settlement of balances resulting from the exchanges at the clearing-house, and all the rules and regulations heretofore adopted in the issue of such certificates shall be in force in the present issue. It is expressly agreed and understood that no bank which shall have received certificates shall make any new loans or discounts, but shall confine its business to the collection of outstanding loans, until all clearing-house certificates shall have been retired."

Certificates were accordingly issued in denominations of five hundred dollars to ten thousand dollars. On the day of the passage of the above resolution it was also

"Resolved, That any members of this association now out of line in their reserve shall immediately take steps to put themselves in line, and that any members desiring to avail themselves of the use of clearing-house certificates shall not be allowed to increase their line of discounts."

Also on June 22d the committee addressed to the cashiers of the several associated banks the following communication:

"The undersigned beg leave to advise you that they have accepted the appointment extended to them by the meeting of the associated banks, held at the clearing-house this day, to act as a loan committee, and that as

such committee they will meet daily at the clearing-house at 11 o'clock A.M. on and after Thursday, the 22d inst., prepared to issue loan certificates in accordance with the action adopted by the meeting referred to. Banks desiring to receive loan certificates on pledge of bills receivable or other securities to be deposited with the committee, are requested to make application for such certificates at or before 11 o'clock A.M. in the form herewith enclosed, to the chairman of the committee at the clearing-house, with a certified copy of a resolution of their board of directors, in the form enclosed, authorizing the deposit and pledge of securities for loan certificates. You are requested to report daily to the manager of the clearing-house each morning at ten o'clock the amount of certificates held by your bank."

One striking feature of the above communication which does not appear in the resolutions and communications in other similar associations, is that banks are referred to as acting in a joint capacity instead of as individuals. Soon after the above action was taken, a resolution was passed by the boards of directors of the several associated banks as follows:

"Resolved, That the president or cashier be and is hereby authorized and empowered to deposit, pledge, or hypothecate with the loan committee of the associated banks of New Orleans, United States stocks, bills receivable, or other securities belonging to this bank as collateral security for any loan or loans made to the said bank by that committee."

Applications to the loan committee for certificates were made by members in form as follows:

“The —— applies for the issue to them of loan certificates to the amount of \$—— to be secured by the deposit of collateral security as per security herewith sent.”

Before taking out loan certificates the several members ratified the action of the association in authorizing their issue, in the following manner:

“*Resolved*, That as a member of the New Orleans Clearing-house Association, the action of said association in the matter of issuing clearing-house certificates is hereby ratified and confirmed, with all of its provisions.”

To intrench themselves against loss in the event of failure on the part of any member of the association taking out loan certificates to redeem the same with the stipulated interest, each member was required to execute and deliver an obligation, of which the following is a copy:

“*This certifies*, That the —— National Bank of the City of New Orleans is indebted to the New Orleans Clearing-house Association in the sum of —— dollars, paid by said association to said bank on the faith hereof, and in consideration thereof said bank hereby agrees to pay said sum with interest from the date thereof, at the rate of seven per cent. per annum to the said association or to its assigns, and said association is hereby authorized through its loan committee or otherwise, to sell at public auction or private sale, on three days' notice to said bank, the securities deposited by said bank with such association, in accordance with the resolution of such association, in pursuance of which this certificate is issued.”

As a further measure of protection to the members in

 CLEARING HOUSE CERTIFICATE.

Cincinnati,..... 1893.

This Certificate is issued to..... or order, for

TEN THOUSAND DOLLARS,

against securities deposited under an agreement of the members of the Clearing House Association of June 16, 1893, and is available only in settling Clearing House balances.

\$10,000.00

Committee.

Form of Clearing-house Loan Certificate used in Cincinnati.

the event of any emergency arising, not otherwise provided for, it was further

“*Resolved*, That any loss arising from the issue of loan certificates shall be borne by the banks comprising the Clearing-house Association, *pro rata* of capital and surplus; and this resolution shall be ratified by the boards of the respective banks, members of the association, and a certified copy of such consent delivered to the chairman of the loan committee.”

In addition to this, a resolution was passed, limiting the amount of payment by any member of the clearing-house association to a single person in any one day to one hundred dollars. The largest amount of certificates outstanding at any one time was nine hundred and ninety-eight thousand dollars, covering one week from September 7th to September 14th, all of which were finally retired without loss to any member.

The Cincinnati Clearing-house likewise issued loan certificates in 1893, and the form employed at that time is given among the illustrations.

All of the associated banks at Buffalo took out certificates in 1893 in denominations of five thousand dollars and one thousand dollars, bearing interest at six to eight per cent., but they did not all use them. The form employed was substantially the same as that used at previous dates in New York. The sum total of the issue was nine hundred and eighty-five thousand dollars, with which balances were settled to the amount of two million seven hundred and eighty thousand dollars. In July, forty per cent. of the balances were paid with these certificates, and fifty per cent. in August. From July 9th the amount

No. _____

Loan Committee of the
Detroit Clearing House Association

Huron Association
Detroit, Mich.

\$ 1000

This Certifies that _____
has deposited with this Committee securities in accordance with the
proceedings of a meeting of the Association held _____
upon which this certificate is issued.

This certificate will be received in payment of balances at the
Clearing House for the sum of **ONE THOUSAND DOLLARS**, from any
member of the Clearing House Association.

ONE THOUSAND DOLLARS

On surrender of this certificate by
the Depositing Bank above named,
the Committee will endorse the amount
as a payment on the obligation of
said Bank held by them and surrender
a proportionate part of the collateral
securities held, therefor.

Committee:

Form of Clearing-house Loan Certificate used in Detroit.

outstanding reached its maximum, nine hundred and twenty-five thousand dollars.

Only ten out of nineteen members of the Clearing-house Association at Pittsburg took out loan certificates in 1893. The total amount issued was nine hundred and eighty-seven thousand dollars, being only two thousand dollars more than the issue at Buffalo. The first were taken out August 11th, and the last were retired November 10th, the full amount of the issue having been outstanding on September 15th. The certificates bore interest at six per cent.

A loan committee was appointed by the chairman of the Clearing-house Association of Detroit, upon vote of the association authorizing such action, and certificates bearing interest at seven per cent. were issued to members applying for the same, in denominations of one thousand dollars. A sample of the certificate employed is presented in reduced fac-simile among the illustrations. The amount attained a maximum of three hundred and sixty thousand dollars on September 11th. In Section 8 of the constitution, provision in case of loss resulting from default in payment by a member of the obligation executed and delivered upon receipt of loan certificates and from failure to realize a sufficient amount from the securities held as collateral to the obligation, is made as follows: " Fifty per cent. of the loss shall be pro-rated among the members on the amount of the capital stock, and the residue of the balance of loss shall be assessed *pro rata* the aggregate amount which the several members have sent to the clearing-house during the time any of such certificates of deposit may have been outstanding."

The Atlanta Clearing-House Association passed a resolution, August 11, 1893, referring the matter of issuing clearing-house loan certificates to a special committee, and on August 15th a communication from the Chamber of Commerce was entertained, requesting the issuance of clearing-house loan certificates, whereupon a committee of three was appointed to act as trustees for the receipt of collateral securities, and for the issuance of such certificates to the extent of sixty-six and two-thirds per cent. of the collateral deposited.

On August 17th a new manager was appointed, who, under direction of the trustees, took active charge of issuing the certificates. The largest amount out at any one time was one hundred and twenty-seven thousand dollars. All were redeemed by November 1st, save about twenty dollars, which at last accounts were still outstanding. The denominations were five dollars, ten dollars, one hundred dollars, and five hundred dollars. A sample of the largest denomination is presented on another page.

Two things are characteristic of the Atlanta certificates which are not to be found in any of those heretofore discussed. In the first place they were issued to the extent of only sixty-six and two-thirds per cent. of the collateral deposited as compared with a minimum of seventy-five per cent. in the other associations; and in the second place it is to be noted on the certificates that they "will be received on deposit or in payment of debts due any bank in said clearing-house"—an implication that they were used for general circulation, which, indeed, is true.

In June, 1893, the Clearing-house Association at Birmingham, Ala., appointed a committee to inquire into the

best methods for relieving the situation, which was aggravated by a run on one of its members about a month previous to that time, and the committee recommended the use of clearing-house loan certificates. In addition to this, the association passed resolutions similar to the one passed at New Orleans, limiting the amount of actual cash each member should pay to a customer on any one day to one hundred dollars, which was afterward reduced to fifty dollars, and providing a penalty for violation. The denominations of loan certificates first used were one thousand dollars, five hundred dollars, one hundred dollars, fifty dollars, ten dollars, and five dollars, respectively.

Like the certificates in Atlanta, they were intended for general circulation among the customers of the banks, but unlike any certificates previously mentioned, they were issued to the extent of only fifty per cent. of the collateral required. Customers at first received them with much reluctance, but they soon found that the merchants would take them for debts and for merchandise, that the banks would take them on deposit and accept them in payment of notes. To obtain cash, persons commenced to buy small bills of goods with them, expecting to receive money in change. This checkmated the merchants, and they called on the association for smaller denominations. Hence certificates of two dollars, one dollar, fifty cents, and twenty-five cents were subsequently issued. No other association in the United States compares with the one at Birmingham in the comprehensiveness of its currency system and in the extent to which it was projected on this occasion. A fac-simile of one of

No.



SERIES A.

Atlanta Clearing House Association Certificate,

500

ATLANTA, GA.



This Certifies That the Banks composing the Atlanta Clearing House Association have deposited with the undersigned Trustees of said Clearing House Association, Securities to the value of SEVEN HUNDRED AND FIFTY DOLLARS, to secure to the bearer hereof the payment of the sum of

FIVE HUNDRED DOLLARS

in lawful money of the United States, payable on demand the first day of January, 1894. This Certificate is issued in accordance with the proceedings of a meeting of said Association, held on the Fifteenth day of August, 1893, and will be received on Deposit or in payment of debts due any bank in said Clearing House.

TRUSTEES.

Form of Clearing-house Loan Certificate used in Atlanta, Ga.

the smaller certificates is presented among the illustrations.

On August 22, 1893, the following resolution was adopted by the Clearing-house Association at Richmond, Va.:

“*Resolved*, That the committee have certificates prepared in denominations of one dollar, five dollars, and ten dollars, in handsome form, ready for use at such time as this association may hereafter determine, said certificates to be payable on demand after ninety days through the clearing-house, to bear three per cent. interest per annum, and to be secured by deposits of collateral as by former resolution, interest to cease after ninety days.” The certificates were duly prepared in compliance with the authority thus given, but were never used.

The Clearing-house Association at Chattanooga, Tenn., resorted to loan certificates in 1893, the only time in the history of that organization that it has done so.

Besides the loan certificates issued in 1893, there was a considerable amount of emergency circulation taken out by the banks in the Southeast, under the title of “Clearing-house certificates,” in cities where no clearing-houses existed. In adopting the name of clearing-house certificates, it was not the purpose of the banks to practise deception on the people, but to indicate what was really true and what the term would seem to imply, namely, that such certificates were temporary loans made by the banks associated together, and that the banks were pledged for their redemption. The denominations in the cities referred to were: Albany, Ga., ten dollars, five dollars, and one dollar; Chester, S. C., ten dollars, five dol-

1/2

BIRMINGHAM CLEARING HOUSE CERTIFICATE.

50C.

No.

Birmingham, Ala.

1893.

This Certifies that the _____ Bank, of Birmingham, Ala., has deposited with the undersigned Committee of the Birmingham Clearing House, securities to the value of ONE DOLLAR, to secure to the bearer hereof the payment of the sum of *FIFTY CENTS*, in lawful money of the United States, payable at any time after ninety days from date hereof.

This Certificate will be received on deposit by any Bank or Banker of the Birmingham Clearing House at par.

COUNTERSIGNED :

CASHIER.

COMMITTEE.

Form of Clearing-house Loan Certificate used in Birmingham, Ala.

lars, and one dollar; Columbia, S. C., fifty dollars, twenty dollars, ten dollars, five dollars, two dollars, and one dollar; Danville, Va., one hundred dollars, fifty dollars, twenty dollars, ten dollars, five dollars, two dollars, and one dollar; Newman, Ga., ten dollars, five dollars, and one dollar; and Rock Hill, S. C., five dollars, two dollars, and one dollar. There is no doubt that the relief afforded in this manner was of great public assistance in the several communities where it was given, effecting results similar to those accomplished by the actual clearing-house loan certificates in the great centres.

In 1895 came another period of depression, especially in certain localities, but by no means so disastrous nor so permanent as the panic of 1893. Such was the pressure at Boston, however, that the clearing-house association authorized the issue of loan certificates, which were taken out to the extent of two hundred and thirty-five thousand dollars, the last of which were retired March 12, 1896. In like manner, at Philadelphia an issue was made aggregating eight million two hundred and twenty thousand dollars.

In 1896, at New Orleans, alone, clearing-house loan certificates were issued, this having been the eleventh time that resort to such measures had been made since the history of clearing-houses in this country began, less than a half century ago. The largest amount of certificates outstanding at one time was three hundred and ninety-nine thousand dollars, and was attained on September 4th. The last of the certificates were retired and cancelled November 17th. The occasion for the issue at this time was, no doubt, the disturbance in business cir-

cles arising from the presidential contest, which, always a disturbing factor, was in this year unusually exciting. Thus the New Orleans Clearing-house Association enjoys the unique distinction of having on two occasions—1879 and 1896—been the only association to issue loan certificates.

The method of calculating interest on certificates has been in many associations a source of much difficulty. In some instances the clearing-houses have taken no cognizance of the interest whatsoever, but left the members free to adjust it for themselves. It is clear that the interest, like the balances, must consist of credits and debits which exactly equal or offset each other. That is to say, the interest charged against certain members for the certificates taken out by them must exactly equal the interest paid to the members holding the certificates. It was not a difficult matter to keep a proper record of the interest to be charged against the members, for the clearing-house committee knew to whom and in what amounts they had issued certificates, and it was necessary only to calculate the interest at the stipulated rate on the full amount of the certificates issued to the several members for the time they were outstanding, and to place the same to their debit; but to know what members held certificates issued to other banks and in what amounts after the settlement of balances therewith began, was to many a source of confusion.

The New York plan has been perhaps the most complete and satisfactory, and was followed by many of the associations. Each member was required to send to the clearing-house each morning a statement of the amount

of certificates on hand. In a book kept for the purpose these amounts were entered to the credit of the banks, each account being kept on a separate page. At the end of the month footings were made of the certificates held by each bank for that time, and the total divided by the number of days the certificates were outstanding. This gave the average amount of certificates on hand for the given time, and upon this amount interest was calculated at the rate agreed upon and placed to the credit of the bank. Drafts were then drawn upon the banks to whom certificates had been issued for the interest due by them. In turn checks were sent to the banks holding certificates for the interest due to them.

The same plan was followed at Philadelphia, but at Boston each member calculated daily the interest due on the certificates held, and sent to the clearing-house with the certificates to be used in settlement of balances a ticket containing a statement of the interest due for the time the certificates were held.

At Buffalo the interest was calculated daily and settled weekly by draft of the manager on debtor banks in favor of creditor banks. At Louisville, Ky., the interest on the certificates taken out in 1891 was calculated by the bank, the clearing-house taking no cognizance thereof whatsoever. The rate was fixed at nine per cent. for two days—virtually eighteen per cent.—and was placed at such an exorbitant figure to prevent the banks which took advantage of such certificates from expanding their loans at a higher rate of interest than they were paying on their loan certificates.

In all such cases the question might arise as to the

disposition of the interest charged against members on certificates taken out but never used. It is only necessary to say in reply that it was the common practice to charge each bank with the full amount of certificates taken out and to credit said bank with the full amount of certificates held to whomsoever they might have been issued. The credit and debit interest, therefore, on certificates issued to any member, but never used, would exactly balance.

Owing to a popular misconception of the character and purpose of clearing-house loan certificates, much adverse criticism regarding them has been indulged in, especially in 1893, on the ground that such issues were made in violation of the ten per cent. prohibitive tax on bank-note currency other than national bank-note circulation. Such objection was based on the assumption that clearing-house loan certificates were a form of national bank currency—an assumption which is ill founded, both in theory and in fact. The certificates were essentially temporary loans made by the banks banded together as a clearing-house association to the members of such association, and were available to such banks only for the purpose of settling balances due from and to each other. In the words of the Comptroller of the Currency, they were but due bills, and their sole function consisted in discharging the single obligation at the clearing-house. An attempt on the part of a bank in any of the associations issuing these certificates to use them otherwise would have incurred a fine and other penalties provided in the rule governing such association. In no instance, excepting those mentioned in the South, were they designated to serve as money, and nowhere else did they circulate as

money. Hence the courts of Pennsylvania decided that they should not be regarded as money. The imposition of a tax upon them, therefore, would have been not only a serious blow to one of the most effective and ingenious contrivances for the deliverance of the country from the throes of panic that has yet been devised, but would also have been a direct violation of the spirit of the law.

CHAPTER XI

THE NEW YORK CLEARING-HOUSE

Origin and Early History—Formal Organization in 1853—First Location—New York Clearing-house Building Company—Cedar Street Property—Constitutional Provisions—Committees—Statistics of Membership—Clearing for Non-members—Statements of Condition—Capitalization of New York Banks—Records of Clearing-house.

Notwithstanding the magnitude of the transactions at the New York Clearing-house, and the important part that it plays in banking economy, very little is known about it outside of banking circles. The business community is not familiar with its functions, and the public in general knows very little of its operations. While the exchanges are enormous, the method is simple and easy to comprehend. It is the purpose of this chapter, therefore, to inquire into its origin and trace its growth and constitutional development. To the end that the reader may be the more fully prepared to comprehend its true significance, it is necessary, by way of introduction, to pass in review the methods of exchange employed by the New York banks prior to its establishment.

During a comparatively short period immediately following 1849 the number of banks in New York increased from twenty-four to sixty. In the daily course of business each bank received checks and other items

on each of the other banks, which had to be presented for collection. All such items on hand were assorted and listed on separate slips at the close of the day, and items coming in through the mail on the following morning were added at that time. To make the daily exchanges each bank sent out a porter with a book of entry, or pass-book, together with the items to be exchanged.

The receiving teller of the first bank visited entered the exchanges brought by the porter on the credit side of his book and the return exchanges on the debit side, who then hurried away to deliver and receive in like manner at the other banks. It often happened that five or six porters would meet at the same bank, thereby retarding each other's progress and causing much delay. Considerable time was consumed in making the circuit. Hence the entry of the return items in the books of the several banks was delayed until the afternoon, at an hour when the other work of the bank was becoming urgent.

A daily settlement of the balances was not attempted by the banks, owing to the time it would have required, but they informally agreed upon a weekly adjustment, the same to take place after the exchanges on Friday morning. At that time the cashier of each bank drew a check for each of the several balances due it, and sent a porter out to collect them. At the same time the porter carried coin with which to pay balances due by his bank. After the settlement had been made, there was a meeting to adjust differences and bring order out of chaos.

An old bank officer (J. S. Gibbons), in describing the

inconveniences and defects of this system, says that some of the more speculative banks took advantage of the weekly method of settlements by carrying a line of discounts to an amount greater than their legitimate resources would allow. Thus a bank would manage to carry a small debit balance of two or three thousand dollars with thirty or more institutions, making a total debit balance of, say, one hundred thousand dollars on which it discounted paper. It was the practice to borrow enough on Thursday to make the settlements on Friday, and the return of the loan on Saturday threw it again into the debtor column. Virtually, therefore, the weekly settlements were nominal only, and to show that there was no attempt at economy of time and labor in making them, it is only necessary to say that the cashier drew a check for every balance due him, whereas a draft on one bank in favor of another might have settled two accounts at once.

The banks were at liberty to draw on each other for their credit balances without waiting for the settlements on Friday, and hence, when specie was needed, this was not infrequently done. But so far did many of the banks extend their loans and discounts that a single small draft by one bank on another would induce a general drawing and involve them all in confusion and virtual war on each other. Three o'clock would arrive, with the line of drafts incomplete, thus enabling debtor banks oftentimes to add fifty thousand dollars to their specie, whereas creditor banks would find themselves at the close of the day depleted in perhaps twice that sum.

The desirability of a substitute for such a system had

long been realized, but as yet no plausible scheme had been proposed. As early as 1831 a plan had been suggested by Albert Gallatin, which, to a very remarkable degree, coincided with the one ultimately adopted. His proposition occurs in a pamphlet of one hundred and twenty-four pages, entitled, "Suggestions on the Banks and Currency of the Several United States in Reference Principally to the Suspension of Specie Payments," and is so significant that we quote it in full:

"There is a measure which, though belonging to the administration of banks, rather than to legal enactments, is suggested on account of its great importance. Few regulations would be more useful in preventing dangerous expansions of discounts and issues on the part of the city banks, than a regular exchange of notes and checks, and an actual daily or semi-weekly payment of the balances. It must be recollected that it is by this process alone that a bank of the United States has ever acted or been supposed to act as a regulator of the currency. Its action would not in that respect be wanted in any city, the banks of which would, by adopting the process, regulate themselves. It is one of the principal ingredients of the system of the banks of Scotland. The bankers of London, by the daily exchange of drafts at the clearing-house, reduce the ultimate balance to a very small sum; and that balance is immediately paid in notes of the Bank of England. The want of a similar arrangement among the banks of this city produces relaxation, favors improper expansions, and is attended with serious inconveniences. The principal difficulty in the way of an arrangement for that purpose is the want of a com-

mon medium other than specie for effecting the payment of balances. Those are daily fluctuating; and a perpetual drawing and re-drawing of specie from and into the banks is unpopular and inconvenient.

“ In order to remedy this, it has been suggested that a general cash office might be established, in which each bank should place a sum in specie, proportionate to its capital, which would be carried to its credit in the books of the office. Each bank would be daily debited or credited in those books for the balance of its account with all the other banks. Each bank might at any time draw for specie on the office for the excess of its credit beyond its quota; and each bank should be obliged to replenish its quota, whenever it was diminished one-half, or in any other proportion agreed on.

“ It may be that some similar arrangement might be made in every other county, or larger convenient district of the State. It would not be necessary to establish then a general cash office. Each of the banks of Scotland has an agent at Edinburgh, and the balances are then settled twice a week, and paid generally by drafts on London. In the same manner the balances due by the banks in each district might be paid by drafts on New York or any other place agreed on.”

These extracts contain the very quintessence of the clearing-house system. A regulation “ belonging to the administration of banks rather than to legal enactments ” comprehends the clearing-house constituted as a private and voluntary association, unchartered, and in fact unknown to the law. The remedy for the “ dangerous expansions of discounts and issues ” and for the “ re-

laxation and serious inconveniences " is afforded by the very system which he proposed; and the " want of a common medium other than specie for effecting the payment of balances " which was the " principal difficulty in the way of an arrangement for that purpose," strikingly suggests the clearing-house gold coin and legal tender certificates in use at the present day. The problem of the " unpopular and inconvenient system of drawing and re-drawing specie from and into the banks " has met its solution in the clearing-house, and the " general cash office, in which each bank should place a sum in specie," is represented in the present coin depository.

The proposition that the specie deposited by each bank should " be carried to its credit in the books of the office," savors of the London, rather than of the American, plan. The extension of the clearing-house system is a partial fulfilment of the remark that " some similar arrangement might be made in every other county or larger convenient district of the State," and the absence of the coin depository in the smaller cities is in keeping with the idea that " it would not be necessary to establish a general cash office in such places." The payment of balances in most of the smaller clearing-houses, by drafts on New York and other large centres, is a remarkable confirmation of the idea that " balances due by the banks in each district might be paid by drafts on New York or any other place agreed on."

But the times were not ripe for the scheme thus proposed. Mr. Gallatin was thinking in advance of the age. More than twenty years passed by before his fellow-bankers could appreciate the wisdom of his suggestions.

In time, however, the question began to be more generally discussed. For nearly a year it was under consideration, and finally it was deemed advisable to call a meeting to take decisive action upon it.

On August 23, 1853, sixteen presidents, one vice-president, and twenty-one cashiers, representing thirty-eight banks, assembled in the directors' room of the Merchants' Bank, and at this meeting a resolution was passed providing that "a committee be appointed to procure or hire a suitable room in or near Wall street, for the purpose of holding meetings of the officers of the city banks; that the said committee be requested to submit a plan at an adjourned meeting of this body, to simplify the system of making exchanges and settling the daily balances; and that when a room is procured or hired for the above purpose, the president or cashiers be requested to meet weekly until a plan is agreed upon." In compliance with this request, the committee presented a plan for the daily settlement of balances, at a meeting held on August 31, 1853, which plan was amended so as to provide "that a room be procured for that purpose, sufficiently large to afford suitable accommodations."

On September 13, 1853, the scheme was adopted and the committee was "clothed with full power to hire a room, appoint a manager and clerks, and make all the necessary arrangements to carry the plan for a clearing-house into effect." On October 4th the date for beginning operations was fixed for October 11th. Accordingly, on the appointed day, the representatives of the banks, members of the association, met in a room which

had been procured in the basement at No. 14 Wall Street, and made the first exchanges. The total clearings on that day were twenty-two million six hundred and forty-eight thousand one hundred and nine dollars and eighty-seven cents, and the balances were one million two hundred and ninety thousand five hundred and seventy-two dollars and thirty-eight cents. These clearings have since been eclipsed by over thirty millions of dollars in the totals of a single bank.

The clearing system in America was thus fairly launched, and from that time forth its success exceeded the expectations of even its most ardent projectors. The association consisted at that time of fifty-two banks, banded together for their common good, which, as they then conceived, consisted solely in the exchange of items and settlement of balances at a uniform time and place. For nearly a year the operations were conducted without a constitution. The adoption of such an instrument was opposed, on the ground that it was not needed and might lead to a dangerous concentration of power in the hands of a few managers, who might use it for personal aggrandizement, or for the exercise of an arbitrary supervision. But the need of fixed rules of some sort for their guidance became more and more urgent, and on February 28, 1854, one of the bank officers "recommended that an act of incorporation be obtained for the clearing-house, or that some other form of organization be adopted, with a constitution and laws for its government, providing for regular meetings of bank officers."

A constitution was drafted by George Curtis, and upon June 6, 1854, it was adopted and ordered sent to

the several banks for their action. Upon August 1st it was signed by each of the members and thereby put into full force and operation. This instrument, with the changes that have been made from time to time by the adoption of amendments and resolutions, is in force at the present day.

The subject of proper accommodations for the transactions of the clearing-house was frequently considered. As already shown, the original location was fixed at No. 14 Wall Street, but the quarters were not entirely suitable, and hence, on May 1, 1854, the seat of operations was transferred to No. 82 Broadway. At a meeting held in May, 1857, a committee was appointed to consider the subject of removal from that locality. One month later the committee reported in favor of occupying a room in the building of the Bank of New York, at No. 48 Wall Street, and their report was adopted. In March, 1858, the association first met in the new rooms. At a meeting held five years thereafter, the question of removing to a more central location was discussed, but it was voted to be inexpedient to consider the subject of removal at that time.

At a meeting on the 24th of June, 1868, a committee was appointed to select suitable rooms for the use of the clearing-house and meetings of bank officers; and the chairman of the committee, in his report to the association on October 15, 1869, stated that they "had been unable to find such rooms; but that the building then being erected by the Equitable Life Insurance Company, on Broadway, corner of Cedar Street, had been under consideration, but it was found that sufficient and

suitable room could not be had in that building, and recommended that the association purchase a building and fit it up to meet the wants of the clearing-house and the banks." At a subsequent meeting the committee was requested by resolution to renew their efforts to procure suitable rooms. Meanwhile the association had been accumulating a building fund, which by October, 1874, amounted to over ninety thousand dollars.

Some time expired before an opportunity offered for the purchase of available property. Finally, the National Bank of the Commonwealth Building, on the corner of Nassau and Pine Streets, was advertised to be sold at public auction on October 13, 1874, and the committee was instructed by a vote of forty-one to five to purchase it at any price that was satisfactory to it. Accordingly, the committee attended the sale and purchased the property for two hundred and fifteen thousand dollars.

In payment of this sum, seventy-five thousand dollars was borrowed on the securities in the hands of the committee, and for the remaining cost and contemplated improvements in the building, a draft was made upon the associated banks, at the rate of twenty-two-one-hundredths of one per cent. on their respective capitals. In return therefor each bank received a certificate from the trustees, with the stipulated agreement that it should receive thereafter a proper consideration for the amount advanced. Subsequent drafts were made upon the members, in proportion to their capital, as in the previous instance, for the purpose of defraying the cost of improvements, including the furniture and fixtures of the

new building. The drafts in total amounted to three-tenths of one per cent. of the respective capitals of the banks. In return for the amounts so advanced certificates were given as before.

The bank building was properly altered and equipped for the transactions of the clearing-house, and on June 17, 1875, the premises were occupied. Here the clearing-house remained for the next twenty-one years. At a meeting of the association, April 20, 1892, the attention of the clearing-house committee was called to the probable necessity of securing before many years a larger and more commodious building for clearing-house purposes. As the result the committee was instructed to consider the matter and report. The same committee, in conjunction with the trustees, was authorized at a meeting on December 29, 1893, to acquire for use of the association the property known as 79 to 83 Cedar Street, and to sell the property on the corner of Pine and Nassau Streets.

A meeting of the association was held January 16, 1894, when it was unanimously resolved "that the clearing-house committee be authorized to organize a corporation to take title to the property just purchased, to be known as the New York Clearing-house Building Company; to draw upon all the banks represented, in proportion to their respective capitals and surplus, for all money needed to pay for the said property, and for the erection, fitting up, and furnishing of a building thereon, suitable for the use of the association; to issue to each of the banks so paying a receipt for such payment, in such form as shall be approved by counsel, and

to apply the money so received to the purchase of the said land, and to supply the said building company with funds to defray the cost of the erecting and furnishing of the said building."

A form of receipt was adopted, certifying that the bank specified therein had paid to the Clearing-house Association the sum named toward the purchase of the real estate in Cedar Street for the use of the banks, members of the association, and that the said bank is entitled to interest upon the said amount at the rate of five per cent., and further providing that the bank shall not transfer the certificate while a member of the association; and if it shall at any time cease to be a member, then the association shall have a prior right to purchase the certificate at a price not exceeding the amount named and interest.

The Cedar Street property was duly bought and the corporation organized to take the title. The capital stock of the corporation was fixed at nine hundred thousand dollars. For this nine thousand shares were issued—eight thousand nine hundred and seventy-five in the name of the president of the Clearing-house Association, and twenty-five in the name of the five directors of the Clearing-house Building Company, who held the same in trust. The banks paid to the clearing-house committee the full amount of the shares, for which, in turn, they received the certificates. In addition, the sum of two hundred and thirty thousand dollars was collected from the members as a final assessment for the erection of the new building, and for this amount certificates were issued in due form, and these, with the



New York Clearing-house.

nine hundred thousand dollars previously issued, made one million one hundred and thirty thousand dollars of certificates outstanding. The final report of the committee showed that the cost of the building was one million ninety-nine thousand five hundred and sixty-nine dollars and seventy-two cents.

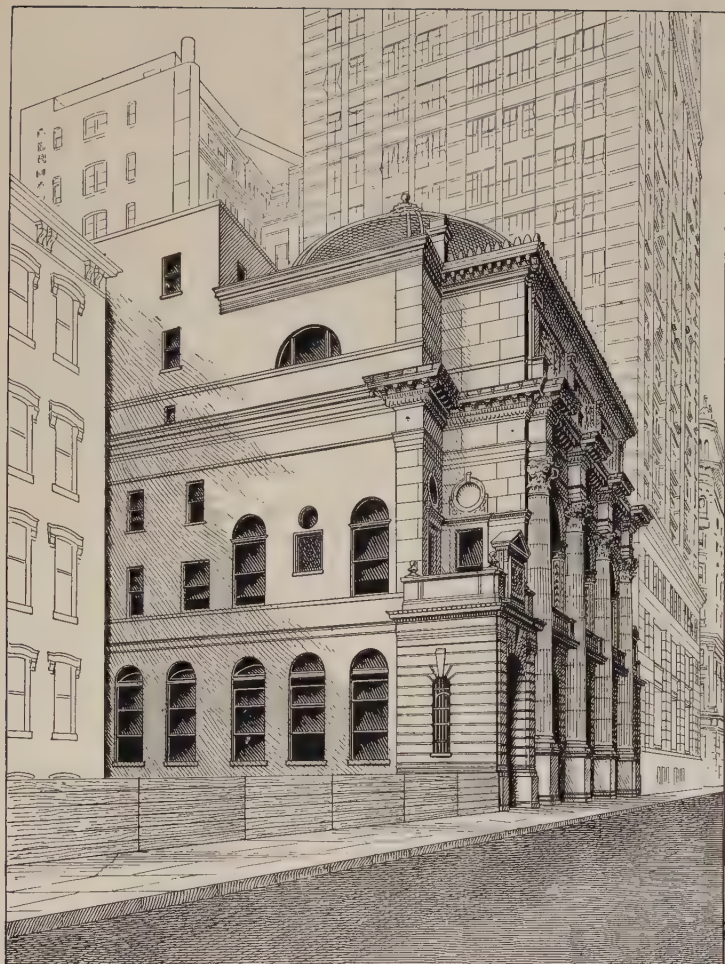
The new building, two views of which are given herewith, in which the association took up its abode in the middle of January, 1896, is built of white marble, in the Italian Renaissance style. It is an adornment to the city and is one of the architectural gems of the world.

Thus we have seen that the association occupied four different locations before coming into the structure erected for its own use; and that after each removal it remained longer than it had in the quarters just abandoned.

The constitution of the New York Clearing-house provides in full for the regulation of the affairs of the association and for the guidance of its members. A general meeting is held annually, and special meetings may be called by the clearing-house committee whenever it may deem it necessary, or whenever it is requested to do so by any seven of the associated banks. A majority of the whole number of associated banks constitutes a quorum. Each bank may be represented at all meetings of the association, and is entitled to one vote.

The administration of the clearing-house is vested in a president, secretary, manager, assistant manager, and five standing committees.

The president is elected by ballot, at the annual meeting, to preside at that meeting and all subsequent meet-



New York Clearing-house. View down Cedar Street from a Point near Broadway. Taken when the Excavation for the American Exchange National Bank was in Progress.

ings during the year. He is *ex-officio* member of all committees, except the committee on nominations. In his absence a chairman *pro tem.* is appointed.

The secretary is elected at the same meeting, and it is his duty to record the minutes of each meeting of the association.

The manager, under the control of the clearing-house committee, has full charge of all business at the clearing-house, but before entering upon his duties he is required to give bond in the sum of ten thousand dollars. The clerks of the establishment, as well as the settling clerks and porters of the several associated banks, while at the clearing-house, are under his direction. He superintends the operation of clearing, the adjustment and settlement of balances, the keeping of the records of transactions as they take place from day to day, the preparation and publication of the weekly bank-statements, and, in a word, attends to all the detail work of the clearing-house. He imposes and collects fines from the members for the violation of clearing-house rules, and acts as secretary of all the committees when they meet at the clearing-house.

Although the constitution provides for the appointment of a manager annually, it is the custom to retain the same one in office year after year. As a fact, there have been only three managers in the whole history of the association. The first, George D. Lyman, served until 1864, when he was succeeded by William A. Camp, who, after a long and honorable career of twenty-eight years as manager, resigned in 1892, and William Sherer, who had been assistant manager, was appointed to suc-



View in Manager's and Assistant Manager's Rooms, New York Clearing-house.

ceed him. The present assistant manager is William J. Gilpin.

The various committees of the clearing-house embrace the clearing-house committee, the conference committee, the committee on admissions, the nominating committee, and the arbitration committee. Each committee consists of five members. The first three committees were provided for in the constitution originally adopted. The committee on arbitration was proposed in an amendment January 11, 1855, by George Curtis, who drafted the constitution. This amendment was subsequently adopted. On September 22, 1871, the nominating committee was created by resolution. Besides these, a loan committee has been appointed on special occasions, whose functions are described in the chapter on clearing-house loan certificates.

The clearing-house committee is clothed with almost absolute power, being second in authority only to the association itself. The ablest and most experienced bank officers, therefore, are usually chosen to serve on it. The committee is elected annually, and is charged with the responsibility of equipping the clearing-house with furniture, providing fuel, stationery, and whatever else is necessary for the convenient transaction of its business, of appointing a manager and his subordinates, of establishing rules and regulations to be observed at the clearing-house, not provided for in the constitution, always, however, subject to the approval of the association, and of generally supervising the clearing-house affairs. This committee has charge of the funds belonging to the association, and draws on each bank for

its quota of expenses. At the first meeting of the association after the election of the committee it submits detailed estimates of the expenditures that will be required for the clearing-house during the current year. It fixes the salaries of the clerks and approves the bonds which are required before they can enter upon their duties. It has power to remove the manager or any of the clerks, whenever it may deem it for the best interests of the association so to do. The committee is also empowered to examine, if necessary, any member of the association, and to require therefrom securities of such an amount and character as may appear to it to be sufficient for the protection of the balances resulting from exchanges at the clearing-house. By resolution adopted October 14, 1890, this committee is empowered to permit or refuse to any member the privilege of clearing for an outside institution. It is directed, whenever in its judgment legal tender notes have been withdrawn from use through the agency of any bank, member of the association, to make an immediate examination of the bank in question, and should there appear to be complicity on the part of the bank or its officials, to suspend said bank from the clearing-house until the action of the association is taken thereon.

The conference committee is annually elected, and its function is, in concurrence with the clearing-house committee, to suspend any bank from the privileges of the clearing-house, in cases of extreme necessity, until the pleasure of the association is ascertained thereon. No such suspension, however, can take place unless a majority, at least, of each of these two committees is present

at the ordering thereof, or unless the vote be unanimous. In case of suspension, the committee is required to call a general meeting of the association to take the matter into consideration.

The committee on admissions is appointed at each annual meeting by the president, and the clearing-house committee refers thereto for examination all applications for admission into the association.

The nominating committee is chosen annually, and its duty is to present to the association at each annual meeting the names of candidates for president and secretary of the association, and for members of the clearing-house, nominating, and conference committees, on the following basis: The president and secretary are eligible for two successive years, and after an interval of one year they are again eligible in like manner. There must be selected every year at least two members on each of the committees (having still three old members), and those who have been longest on the committees must go off first. If all have been on the same length of time, then two must go off by lot. After an interval of one year such members are again eligible.

The arbitration committee is appointed annually by the president, and its function is to hear and determine all disputes submitted to it by both parties thereto, one or both of which are members of the association. It is the duty of this committee also to record a brief abstract of each case referred to it, together with its decision thereon, in a book provided for that purpose, which book is kept at the clearing-house, open to the inspection of all the members.

The association at present consists of sixty-three members (forty-four national banks, nineteen State banks) and the United States Sub-treasury located at New York. The latter makes its exchanges only at the clearing-house, its balances being settled at its own counter. It has no voice in the government of the association, and pays a nominal sum for actual expenses. The privilege which the sub-treasury enjoys of making its exchanges through the clearing-house is a matter of great accommodation both to the Sub-treasury and to the banks. The New York Post-office clears through one of the members, but renders no compensation to the association for the privilege.

The membership of the association since its organization has been constantly changing, owing to the admission and expulsion of members and voluntary withdrawals, as provided by the constitution.

The association began with fifty-one members, but by 1858 the list had declined to forty-six, the lowest number in the history of the clearing-house. A membership of sixty-seven was attained in 1895.

On February 28, 1854, the Bank of the Union was expelled, and the clearing-house committee was authorized to return to it whatever amount was necessary to offset its advances toward the expenses of the clearing-house. On the following December the Empire City Bank was expelled, and a similar resolution passed; but in no case thereafter were any such refunds made.

The association came into existence, as has been stated, in 1853, but it was not until February 29, 1856, that the first additional bank was admitted, four banks

having been expelled in the meantime. The list continued to vary from this time forth, at irregular intervals, there having been in the entire history of the association forty-two admissions, ten expulsions, twelve withdrawals, and nine banks dropped.

The constitution is very explicit in its terms regarding the admission and conduct of members. Applicants are first considered by the clearing-house committee and referred hence to the committee on admissions. The latter, if in its opinion the applicants are qualified for membership, refers them to the association for final action, a three-fourths vote of those present being necessary to admission. Banks may be elected to membership at any meeting of the association, but, before being considered by the clearing-house committee, each applicant must be shown to have a capital or combined capital and surplus of at least five hundred thousand dollars. Each new member is required to signify its assent to the constitution, in the same manner as the original members, and to pay an admission fee according to capital, as follows: A bank, the capital of which does not exceed five million dollars, must pay five thousand dollars; a bank, the capital of which exceeds five million dollars, must pay seven thousand five hundred dollars. Any member increasing its capital is required to pay in accordance with those rates.

The admission charges have not always been the same. The original members paid no admission fee. In the constitution, as originally adopted, the rate was fixed at five hundred dollars. This was raised to one thousand dollars by an amendment adopted October 11,

1854. Under the constitution, as revised in 1865, the fees were based on the capital as follows: For banks whose capital did not exceed five hundred thousand dollars, the rate was fixed at one thousand dollars; for those whose capital did not exceed one million dollars, at two thousand dollars; for those whose capital did not exceed two million dollars, at three thousand dollars; for those whose capital did not exceed three million dollars, at four thousand dollars; for those whose capital did not exceed five million dollars, at five thousand dollars; and for those whose capital exceeded five million dollars, at seven thousand five hundred dollars. On October 3, 1893, the amendment was adopted, fixing the rates on the present basis.

The power of expulsion is lodged in the association, but can be exercised only by a majority vote of all the members. The power of suspension is vested jointly in the conference and the clearing-house committees. Any member may withdraw at pleasure after paying its due proportion of all expenses incurred and signifying its intention to withdraw to the clearing-house committee.

There were some fifty-seven banks in operation in New York when the clearing-house was organized, and all but five came into the association, those remaining outside being small institutions. Subsequently two or three of these applied for admission, but inasmuch as they were not deemed capable of meeting the requirements imposed upon the existing members, they were rejected. At the present time sixty-two per cent. of the banks are members. In the city and vicinity are eighty-

three banks and trust companies non-members, as compared with the sixty-three members. The nature of the business of the non-members, however, quite as much as that of member-banks, demands that their exchanges go through the clearing-house, and hence each such bank or trust company makes a special engagement with some member to act as its clearing agent, upon such terms of security as they may agree upon. At present there are seventy-three outside institutions making their exchanges in this way.

At the beginning the subject of clearing for non-members naturally did not attract much attention, but as the city grew in business importance and its banks increased in power and numbers, it began to be more seriously considered. Several amendments were made to the constitution, designed to regulate the action of non-members and determine their relation to members. On January 11, 1855, George Curtis, to whom reference has already been made as the author of the constitution, proposed the first amendment on this subject, which was subsequently adopted as follows:

“Whenever exchanges shall have been made at the clearing-house, by previous arrangement between members of the association, through one of their number and banks in the city and vicinity who are not members, the receiving bank at the clearing-house shall in no case discontinue the arrangement without giving previous notice, which shall not take effect until the exchanges of the morning following the receipt of such notice shall have been completed.”

It will be observed that no provision is made for the

protection of banks against the insolvency of non-members, but that the clearing member is made responsible for the items drawn upon the non-member, and is prevented from discontinuing such responsibility until the exchanges are completed on the day following the receipt of such notice. The next resolution on the subject was adopted ten years later, and is as follows:

“*Resolved*, That no member of the Clearing-house Association shall be allowed to make the exchanges for or redeem the notes or checks of any other bank or banks not members of said association, without first giving notice, over the signature of one of its officers, of the fact of such redemption; nor shall such redemption be discontinued but upon notice in the manner prescribed by Section 25 of the constitution.”

Here for the first time a requirement was made of the banks that they should give notice of their intention to clear for non-members. Again, in the same year, another amendment followed. Thus:

“Whenever any member of the association shall send through the clearing-house exchanges of any bank or banks in the city or vicinity who are not members, such sending shall *ipso facto* and without further notice constitute said member the agent for said bank or banks at the clearing-house; and said member shall be liable in the premises, the same as for its own transactions, and its liability in all such cases shall continue until after the completion of the exchanges of the morning next following the receipt of notice of discontinuance of any such agency.”

This virtually repealed the former resolution requiring

notice of the creation of a clearing agency. It continued the requirement of a previous notice before discontinuing such agency, and clearly established the measure of liability of the clearing member for the items of the non-member. As if to reinforce the above resolution, another was adopted in May of the following year, as follows :

“ Resolved, That the liabilities of banks in the clearing-house doing business for the banks in the vicinity are, under the amendment to the constitution, passed April 26, 1865, the same as for their own transactions.”

Clearing for non-members continued for nearly a quarter of a century without further regulation. Finally, in 1890, new troubles arose from the failure of two small banks clearing through member-banks and the looting of the Sixth National Bank, a member. Accordingly, the whole subject of clearing for non-members was most carefully investigated and considered. Many favored its discontinuance altogether, and finally the question was referred to a committee. A majority of the committee reported in favor of discontinuance, and a minority in support of the prevailing plan. The association adopted the views of the minority and voted to continue on the existing basis. This led to the following resolution, adopted October 14, 1890:

“ Resolved, That on and after January 1, 1891, this association permits its members to make such exchanges only after the consent of the clearing-house committee is obtained; and the banks or parties have obligated themselves to pay to the Clearing-house Association an annual payment of two hundred dollars, and also consent to the

same examinations as are now required of its members, provided, however, that nothing contained in this resolution is construed as making such banks or parties members of the association."

Thus, discretion regarding the clearing for non-members was taken out of the hands of the members and transferred to the clearing-house committee, and for the

NEW YORK,.....1900.

At a meeting of the * Board of Directors, of the

.....
of.....held.....1900,
the following Resolution was adopted:

"*Resolved*: That this Board hereby agrees to the payment of Five Hundred (\$500) Dollars per annum, for the purpose of making its Exchanges through a Bank, member of the New York Clearing-house Association.

"And this Board also consents to the same examinations of this
.....as are now required of members of the Clearing-house Association."

.....

* This title may be changed to read

"Board of Trustees, Executive Committee, etc.," as necessary.

Resolution Authorizing Exchanges through a Member-bank.

first time non-members were required to pay to the association a definite sum in consideration of the privileges extended to them. Again, on December 21, 1896, the constitution was amended as follows:

"*Resolved*, That the amendment to the constitution adopted October 14, 1890, assessing banks and others not members of this association, and clearing through

members, two hundred dollars annually, be amended by increasing such amount to five hundred dollars annually, this amendment to take effect on and after January 1, 1897."

A resolution was also passed, to take effect on the same date, requiring all banks, not members of the asso-

NEW YORK,.....1900.	
.....	
Chairman Clearing-house Committee:	
Dear Sir :	
The.....	
of.....	hereby applies for consent
of the Clearing-house Committee to make the Exchanges for	
.....	
of.....	on and after.....
Statement of its condition enclosed.	
Respectfully,	
Approved.....	.....
.....	
.....	
.....	
.....	
.....	

Application to Clear for Another Bank.

ciation, whose checks are exchanged at the clearing-house, to furnish the manager weekly statements of their condition, showing the average amount of their loans, discounts, and investments; specie, legal tender notes, and bank notes; deposit with clearing-house agent, deposit with other New York City and Brooklyn banks and trust companies, net deposits, circulation. These state-

ments were intended for the records of the clearing-house and not for publication; but a resolution was subsequently passed requiring that they be published, beginning with the first Saturday in November, 1897.

Thus it will be seen by resolutions and amendments covering nearly the whole period of its history, the New York Clearing-house Association has been developing

NEW YORK CLEARING-HOUSE,

NOS. 77-83 CEDAR STREET.

NEW YORK,.....1900.

.....Esq., Cashier.

Dear Sir :

Consent of the Clearing-house Committee is hereby given to the.....of.....
to make the Exchanges at the New York Clearing-house for the
.....of.....
on and after.....subject to the rules and
regulations of the Association.

By order of.....

Chairman Clearing-house Committee.

.....Manager.

Consent to Clear for Another Bank.

the present system, regulating the conduct of those outside institutions which enjoy the privileges of the clearing-house. No other association in the United States even approximates that of New York in the rigorous conditions it imposes upon non-member banks, and in the consequent safeguards it has thrown around its members.

. . COPY OF STATEMENT . .

OF THE

.....for week
 ending the.....day of.....189 ,
 as required by Resolution of the Clearing-house Committee, of the
 New York Clearing-house Association, adopted December 28, 1896.

Average Amount of Loans and Discounts and Investments,			
Average Amount of Specie,			
Average Amount of Legal Tender Notes and Bank Notes,			
Average Amount on Deposit with Clearing-house Agent,			
*Average Amount on Deposit with other New York City Banks and Trust Companies,			
Average Amount of Deposits,			
Average Amount of Circulation,			

* This item should include amounts on deposit with Brooklyn Banks and Trust Companies.

NEW YORK CLEARING-HOUSE.

Please send a copy of the Weekly Statement of your Bank to the
 Clearing-house at the close of business on Friday of each week.

WILLIAM SHERER,
 Manager.

Form of Statement of Weekly Averages of Brooklyn Non-member Banks.

The relationship of trust companies to the clearing-house, particularly in view of the number of trust companies organized and entering upon business the last few years, has been a subject for careful consideration upon the part of the management. A sub-committee of the clearing-house committee was appointed October 26, 1899, to inquire into the matter and make a report. The report of this sub-committee, the substance of which is given below, was adopted at a meeting held on the third of November, 1899.

The report at the outset recites that the constitution of the association, particularly the amendment of October 14, 1890, imposes upon the committee the responsibility of consenting to the clearings by banks and trust companies not members of the association. The report then continues that in the opinion of the sub-committee, general and uniform rules from time to time should be adopted. Therefore the following are recommended:

“No trust company shall be permitted to clear through any member or non-member of this association, unless such trust company shall have been in actual operation for at least one year at the time of making the application.

“No trust company shall be cleared by any bank or trust company, member or non-member of this association, until it shall have been examined by the clearing-house committee, or some other committee of the association duly appointed for such purpose.

“Every trust company clearing through a member of this association, or which may hereafter be permitted to

clear through such member, shall furnish a weekly statement of its condition to the manager of this association, in the same manner as weekly statements of non-member banks clearing through this association are now rendered. Such statements shall include

Capital,

Net profits,

Average amount of loans and discounts and investments,

Average amount of specie,

Average amount of legal tender notes and bank notes,

Average amount on deposit with other New York City and Brooklyn banks and trust companies,

Average amount of net deposits."

In the notice sent out by the manager of the clearing-house, November 6, 1899, embodying the foregoing, it was asserted that the statements demanded of the trust companies were not for the present intended for publication. The form of statement provided for use in this connection is given among the illustrations.

At the meeting of the clearing-house committee above referred to, it was also resolved that from that date forward every statement of averages submitted to the clearing-house by a member or non-member should be verified and signed by an officer.

Each bank belonging to the New York Clearing-house Association is required to furnish to the manager weekly, for publication, a statement of its condition, showing the average amount of loans and discounts, specie, legal tender notes, circulation, and deposits. The capital and net profits also are given, this being the only association which gives the latter item.

. . COPY OF STATEMENT . .

OF THE

.....for week
 ending the.....day of.....I.....
 as required by Resolution of the Clearing-house Committee of the
 New York Clearing-house Association, adopted November 3, 1899.

Capital (as per latest statement of Banking Dept.), . .			
Surplus Fund and Undivided Profits (as per latest statement to Banking Dept.),			
Average Amount of Loans, Bills Purchased and Investments (not Real Estate),			
Average Amount of Specie,	}		
Average Amount Legal Tender Notes and Bank Notes,			
Average Amount on Deposit with other New York City Banks and Trust Companies,			
Average Amount of Deposits,			

Correct.....

NEW YORK CLEARING-HOUSE.

Please send a copy of the Weekly Statement of your Company to the Clearing-house at the **close of business on Friday of each week.**

WILLIAM SHERER,
 Manager.

Form of Statement Required by the New York Clearing-house Association of Trust Companies.

NATIONAL.

No.

Liabilities.

Capital,
 Net Profits,
 Circulation,
 Due Banks and Trust Companies, .
 Due other Depositors,
 Unpaid Dividends,
 TOTAL,

Resources.

Loans and Discounts,
 U. S. Bonds on hand,
 U. S. Bonds to secure circulation, .
 U. S. Bonds to secure deposits, .
 Other Stocks and Bonds and Mortg's,
 Premium on U. S. Bonds,
 Real Estate, Furniture, and Fixtures,
 Due from Banks,
 Cash Items and Bank Notes, . . .
 Specie,
 Legal Tenders,
 Over-drafts,
 TOTAL,

Certified Checks,
 Exchanges,

Form Used at Clearing-house in Tabulating National Bank Statements.

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Form Used at Clearing-house in Tabulating State Bank Statements.

From Reports to the New York Clearing-house, as required under Section 16, of the Constitution.

	* Net	Specie	Legals.	Deposits.	Circulation.

Skeleton of the Weekly Statement of the Associated Banks of the City of New York.

Skeleton of the Weekly Statement of the Associated Banks of the City of New York

SUMMARY OF WEEKLY STATEMENT OF ASSOCIATED BANKS.

Week ending, 189

[illegible]

Form of Summary of Weekly Statement of Associated Banks.

COPY OF STATEMENT

OF THE

.....for week
 ending the.....day of..... 189
 as required by Section 16 of the Constitution of the New
 York Clearing-house Association.

Average amount of Loans and Discounts, . . .			
Average amount of Specie,			
Average amount of Legal Tender Notes, . . .			
Average amount of Deposits,			
Average amount of Circulation,			

New York Clearing-house.

Please send a copy of the Weekly Statement of your
 Bank to the Clearing-house *before 11 o'clock A.M. on*
each and every Saturday.

WILLIAM SHERER, MANAGER.

Form of Statement Required of Associated Banks.

Condition of the NATIONAL BANKS of the City of New York on the 5th day of April, 1899, as Shown by their Official Statements
Compiled at the New York Clearing House for the use of the Members of the Association.

LIABILITIES.

BANKS.	Capital.	Net Profits.	Circulation.	DEPOSITS.		Unpaid Dividends.	U. S. Bond Account.	Totals.	Certified Checks.
				Due Banks.	Due Other Depositors.				
Bank of N. Y. Nat'l Bkg. Ass'n	\$.....	\$.....	\$.....	\$.....	\$.....	\$.....	\$.....	\$.....	\$.....
Mechanics' National Bank	.....	.....	.....	.....	.....	.....	.....	.....	.....
Mechanics' National Bank	.....	.....	.....	.....	.....	.....	.....	.....	.....
Franklin National Bank	.....	.....	.....	.....	.....	.....	.....	.....	.....
(46 banks) Totals, April 5th, 1899	\$47,891,400	\$63,444,900	\$44,393,100	\$351,454,000	\$65,741,000	\$37,100	\$7,443,600	\$960,626,400	.....
(46 banks) Totals, Feb. 4th, 1899	47,960,000	62,510,700	45,136,600	390,577,300	419,228,100	124,600	15,258,100	959,737,400	.....
Comparisons.....	Increase \$8,600	Increase \$1,034,200	Decrease \$945,500	Decrease \$39,122,900	Increase \$46,513,800	Increase \$32,500	Increase \$4,185,500	Increase \$3,085,000	.....

RESOURCES.

BANKS.	UNITED STATES BONDS.		Other S't's Bonds and Mortgages.	Prem. on U. S. Bonds.	Real Estate, Furniture and Fix't's.	Due from Banks.	Cash Items and Bank Notes.	Specie.	Legal Tenders.	Over-drafts.
	On Hand.	To Secure Circulation.								
Bank of N. Y. Nat'l Bkg. Ass'n	\$.....	\$.....	\$.....	\$.....	\$.....	\$.....	\$.....	\$.....	\$.....	\$.....
Mechanics' National Bank	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Mechanics' National Bank	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Franklin National Bank	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
(46 banks) Totals, April 5th, 1899	\$571,737,100	\$16,770,900	\$53,392,800	\$3,259,800	\$6,695,500	\$42,992,300	\$3,827,400	\$67,768,200	\$38,270,000	\$20,000
(46 banks) Totals, Feb. 4th, 1899	547,927,300	18,020,900	58,186,900	3,451,000	16,916,600	43,438,200	3,838,100	477,953,600	44,391,100	368,500
Comparisons.....	Increase \$23,809,800	Decrease \$1,250,000	Increase \$5,206,000	Decrease \$91,200	Decrease \$2,221,100	Decrease \$1,445,900	Decrease \$7,700	Decrease \$10,085,600	Decrease \$4,121,100	Increase \$151,500

Skeleton of Quarterly Statement of National Banks.

Condition of the STATE BANKS of the City of New York on the 10th day of March, 1900, as Shown by their Official Statements
Compiled at the New York Clearing-house for the Use of the Members of the Association.

LIABILITIES.

BANKS.	Capital.	Net Profits.	DEPOSITS.			Unpaid Dividends.	Totals.
			Due Banks.	Due Other Depositors.			
Bank of the Manhattan Company.....	\$.....	\$.....	\$.....	\$.....		\$.....	\$.....
Bank of America.....	.....	.....	.....	.....		.....	.....
Mechanics' and Traders' Bank.....	.....	.....	.....	.....		.....	.....
36 Banks—Totals, March 10, 1900.....	\$13,972,700	\$16,862,200	\$25,917,800	\$24,811,900		\$23,100	\$181,587,700
36 Banks—Totals, December 4, 1899....	13,972,700	16,514,000	20,220,800	12,717,300		27,800	178,471,600
Comparisons.....	.....	Increase \$348,200	Increase \$5,697,000	Decrease \$2,924,400		Decrease \$4,700	Increase \$3,116,100

RESOURCES.

BANKS.	Loans and Discounts.	Stocks, and Bonds and Mortgages.	Real Estate, Furniture and Fixt's.	Due from Banks.	Cash Items.	Specie.	Legal Tenders and Bank Notes.	Over-drafts.
Bank of the Manhattan Company.....	\$.....	\$.....	\$.....	\$.....	\$.....	\$.....	\$.....	\$.....
Bank of America.....	.....	.....	.....	.....	.....	.....	.....	.....
Mechanics' and Traders' Bank.....	.....	.....	.....	.....	.....	.....	.....	.....
36 Banks—Totals, March 10, 1900.....	\$125,121,400	\$8,902,300	\$5,003,800	\$11,093,400	\$650,500	\$18,589,400	\$11,297,300	\$29,600
36 Banks—Totals, December 4, 1899....	122,018,100	9,049,900	6,055,800	11,554,500	1,385,400	16,735,100	11,584,700	88,100
Comparisons.....	Increase \$3,103,300	Decrease \$147,600	Decrease \$152,000	Decrease \$461,100	Decrease \$734,900	Increase \$1,854,300	Decrease \$287,400	Decrease \$58,500

Skeleton of the Quarterly Statement of the Condition of the State Banks of the City of New York.

NEW YORK CLEARING-HOUSE.

Weekly Statement of Non-member Banks, for week ending Saturday, April 21, 1900.

BANKS.	* Capital.	* Net Profits.	Average Amount of Loans and Discounts.	Average Amount of Specie.	Average Amount of Legal Tender Notes and Bank Notes.	Average Amount on Deposit with Clearing-house Agent.	Average Amount on Deposit with other New York City and Brooklyn Banks and Trust Companies.	Average Amounts of Net Deposits.	Average Amount of Circulation.
NEW YORK CITY, BOROUGH OF MANHATTAN.									
Colonial Bank.....	\$.....	\$.....	\$.....	\$.....	\$.....	\$.....	\$.....	\$.....	\$.....
Columbia Bank.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Eleventh Ward Bank.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Fourteenth Street Bank.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
OTHER CITIES.									
Second Nat'l Bank, Jersey City.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Third Nat'l Bank, Jersey City.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
First National Bank, Hoboken.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Second National Bank, Hoboken.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Total National Banks.....	\$2,487,000	\$4,384,100							
" State Banks.....	4,775,000	3,701,600							
Totals.....	\$7,262,000	\$8,085,700	\$60,125,100	\$2,616,800	\$3,640,100	\$7,968,000	\$2,959,500	\$66,819,400	\$1,151,000
* As per official reports—			Increase	Increase	Decrease	Increase	Decrease	Increase	Decrease
11 National Banks, Feb. 13, 1900.			\$281,700	\$41,100	\$49,500	\$678,600	\$8,100	\$994,400	\$5,300
33 State Banks, March 10, 1900.									
\$383,500 Increase, Reserve.									

Skeleton of Weekly Statement of Non-member Banks.

The matter of collecting checks and other items outside of the city of New York is a subject that for many years past has received most careful thought upon the part of the officers and members of the New York Clearing-house. An amendment to the constitution was adopted, March 13, 1899, directly bearing upon this point and embodying a policy that was so radical as not only to attract attention throughout the entire financial community, but at the outset to incite more or less opposition. As time has passed, however, the justness of the provisions has become apparent and the business community has acquiesced in what is manifestly an entirely reasonable measure.

The amendment to the constitution, being an addition to Section 8, was as follows:

“The clearing-house committee shall have power to establish rules and regulations regarding collections outside of the city of New York, by members of the association or banks or trust companies or others clearing through such members, and the rates to be charged for such collections, and also providing for enforcement of the same. The committee may from time to time make any additions to, or changes in, such rules and regulations as it deems judicious. After any rule or regulation upon the subject has been once established, it shall not, however, be altered or rescinded until it has been in force at least three months, except by majority vote of the Clearing-house Association.”

Under this amendment the following rules and regulations regarding collections outside of the city of New York were adopted by the clearing-house committee:

“Pursuant to authority conferred upon it by the constitution of the New York Clearing-house Association, the clearing-house committee of said association establishes the following rules and regulations regarding collections outside of the city of New York, by members of the association, or banks, trust companies, or others clearing through such members, and the rates to be charged for such collections, and also regarding enforcement of the provisions hereof.

“Section 1. These rules and regulations shall apply to all members of the association, and to all banks, trust companies, or others clearing through such members. The parties to which the same so apply are hereinafter described as collecting banks.

“Section 2. For items collected for the accounts of, or in dealings with the governments of the United States, the State of New York, or the city of New York, and for items payable in the cities of Boston, Mass.; Providence, R. I.; Albany, N. Y.; Troy, N. Y.; Jersey City, N. J.; Bayonne, N. J.; Hoboken, N. J.; Newark, N. J.; Philadelphia, Pa.; Baltimore, Md., the charge shall in all cases be discretionary with the collecting bank, and the same shall not be governed by the provisions of these rules and regulations.

“Section 3. For all items from whomsoever received (except on those points declared discretionary in Section 2), payable at points in Connecticut, Delaware, District of Columbia, Indiana, Illinois, Kentucky, Maine, Maryland, Massachusetts, Michigan, Missouri, New Hampshire, New Jersey, New York, Ohio, Pennsylvania, Rhode Island, Vermont, Virginia, West Virginia, and

Wisconsin, the collecting banks shall charge not less than one-tenth of one per cent. of the amount of the items respectively.

“Section 4. For all items from whomsoever received payable at points in Alabama, Arizona, Arkansas, California, Colorado, Florida, Georgia, Idaho, Indian Territory, Iowa, Kansas, Louisiana, Minnesota, Mississippi, Montana, Nebraska, Nevada, New Mexico, North Carolina, North Dakota, Oklahoma, Oregon, South Carolina, South Dakota, Tennessee, Texas, Utah, Washington, Wyoming, and Canada, the collecting banks shall charge not less than one-quarter of one per cent. of the amount of the items respectively.

“Section 5. In case the charge upon any item at the rates above specified does not equal ten cents, the collecting bank shall charge not less than that sum; but all items received from any one person at the same time and payable at the same place may be added together and treated as one item for the purpose of fixing the amount chargeable.

“Section 6. The charges herein specified shall in all cases be collected at the time of deposit or not later than the tenth day of the following calendar month. No collecting bank shall, directly or indirectly, allow any abatement, rebate, or return for or on account of such charges or make in any form, whether of interest on balances or otherwise, any compensation therefor.

“Section 7. Every collecting bank, trust company, or other corporation not a member of the association, but clearing through a member thereof, shall forthwith adopt by its board of directors a resolution in the following

terms, and file a certified copy thereof with the association as evidence as therein specified:

“ *Whereas*, This corporation has acquired the privilege of clearing and making exchange of its checks through the New York Clearing-house Association, and is subject to its rules and regulations: Now, therefore, *Be it Resolved* that this corporation hereby in all respects assents to and agrees to be bound by and to comply with all rules and regulations regarding collections outside of the City of New York, which may be established pursuant to the Constitution of said Association, and that the President of this corporation is hereby instructed to file a certified copy of this resolution with the Clearing-house Association as evidence of such assent and agreement on the part of this corporation.

“ Section 8. In case any member of the association shall learn that these rules and regulations have been violated by any of the collecting banks, it shall immediately report the facts to the chairman of the clearing-house committee, or, in his absence, to the manager of the association. Upon receiving information from any source that there has been a violation of the same, said chairman, or, in his absence, said manager, shall call a meeting of the committee. The committee shall investigate the facts and determine whether a formal hearing is necessary. In case the committee so concludes, it shall instruct the manager to formulate charges and present them to the committee. A copy of the charges, together with written notice of the time and place fixed for hearing regarding the same, shall be served upon the collecting bank charged with such violation, which shall have

the right at the hearing to introduce such relevant evidence and submit such argument as it may desire. The committee shall hear whatever relevant evidence may be offered by any person and whatever arguments may be submitted, and shall determine whether the charges are

..... 1899. I hereby certify, that, at a meeting of the Board of Directors of of held..... 1899. the following preamble and resolution were adopted : <i>Whereas</i>, This corporation has acquired the privilege of clearing and making exchange of its checks through the New York Clearing-house Association, and is subject to its rules and regulations : Now, therefore, <i>Be it Resolved</i> that this corporation hereby in all respects assents to and agrees to be bound by and to comply with all rules and regulations regarding collections outside of the City of New York, which may be established pursuant to the Constitution of said Association, and that the President of this corporation is hereby instructed to file a certified copy of this resolution with the Clearing-house Association as evidence of such assent and agreement on the part of this corporation. [SEAL]

Agreement to Comply with Rules and Regulations Regarding Collections Outside of New York.

sustained. In case it reaches the conclusion that they are, the committee shall call a special meeting of the association and report thereto the facts with its conclusions. If the report of the committee is approved by the association, the collecting bank charged with such violation shall pay to the association the sum of five thousand

dollars, and in case of a second violation of these rules and regulations, any collecting bank may also in the discretion of the association be excluded from using its privileges directly or indirectly, and, if it is a member, expelled from the association."

By resolution of the clearing-house committee, the foregoing resolutions went into effect on the 3d day of April, 1899.

Most complete and accurate records are kept at the New York Clearing-house of all the transactions, both of the exchanges between the banks and of all the important acts relating to the administration. Six permanent employees, subordinate to the manager and assistant manager, are required to perform these duties, the attention of the latter two being almost wholly occupied in work of an administrative character.

There are about twenty-five records, consisting of ledgers, statements, books, and registers. The most important are as follows: A record book containing a copy of the manager's proof-sheet, showing the daily exchanges and balances of the several banks and the totals of the same; a ledger showing the exchanges and balances of each bank kept separately, the same being a compilation from the proof-sheet; a registry book showing the balances received at the clearing-house each day; a record of the kinds and amounts of money received in payments of balances by days, months, and years since 1882; a weekly statement record showing the weekly statements required from members for publication; the statements made in response to the call of the Comptroller of the Currency and the State Superintendent of

Banks, compiled and recorded for the use of members of the association; an individual weekly bank-statement introduced in 1892, being a compilation of the weekly statement by banks; a record of the increase and decrease in the items called for in the weekly statements; an annual record of comparative statements of footings of weekly statements; a record for the quarter begun in 1892, showing the resources, liabilities, dividends, and sales and book value of stock; a record of information, as complete as possible, regarding all the banks in New York City; a record of the issue of clearing-house certificates upon the deposit of gold, and also upon the deposit of collateral security, with the loan committee when in session; a general statement of fines and corrections of clerks since 1877; a record of the returns, as far as possible, from the various clearing-houses of the United States.

There are about ten other records of less importance, besides the usual ledger, journal, and cash-book, in which the clearing-house keeps its own accounts and the records of the proceedings of the various committees.

CHAPTER XII

DAILY ROUTINE OF THE NEW YORK CLEARING-HOUSE

The Clearing-room—Clerks and Messengers—The Manager's Part—How the Exchanges are Made—The Cash Balance Paid In—The Disbursements—Clearing-house Gold Depository—Restrictive Indorsements—Pro Rating of Expenses—Record of Fines—Table of Annual Clearings—Table of Average Daily Balances.

The clearing-room of the New York Clearing-house is a beautiful and commodious apartment, sixty feet square, surmounted by a dome rising twenty-five feet above the walls. Light enters through the glass forming the upper part of the dome, and, when necessary, additional illumination is secured by the use of electric lights, which encircle the base of the dome. Four rows of desks occupy the floor, with sufficient space between for an easy movement of the clerks in delivering the exchanges. Each member has its own numbered desk, separated from the one on the right and left by net-work of wire. At the east end of the room is the manager's gallery, elevated sufficiently to command an easy view of the scene of operations. It is made accessible in front by steps and in the rear by an elevator.

Each business day, at 10 o'clock, the exchanges take

place between the banks. About fifteen minutes before the hour designated the clerks begin to arrive. Formerly it was the custom for each member to send only two clerks, but so numerous and cumbersome have become the exchanges of many of the banks that it is now necessary to send one and sometimes two extra clerks to assist in transporting the items to and from the clearing-house, and in delivering the packages.

The two essential representatives of each bank are the "delivery clerk" and the "settling clerk." The former delivers the packages brought, and the latter receives the return packages from the messengers of the other banks.

Each member sends its items for the other banks made out separately and enclosed in envelopes, with the amounts listed on the "exchange slip" attached to the exterior. On their arrival at the house the settling clerks furnish the proof clerk, sitting at his desk in the manager's gallery, with the "first ticket," upon which is entered the "amount brought" or "credit exchange," and which the latter transcribes on the clearing-house proof under the head of "Banks Cr." The total of the amounts thus brought by the several clerks constitutes the right-hand main column of that sheet. If each messenger has a package for each of the other banks, there are four thousand and thirty-two in all to be delivered.

As a fact, in all other respects than the quantity of packages, this is the number of transactions between the clerks, for it is found in practice better to use a blank slip than to omit a slip, merely because there is no amount to put upon it. This plan saves doubt and unnecessary

searching when looking after the proof. The stationery used by each of the several banks is put up in sets in numerical order, and this is a reason why it is easier to use all the slips than to discard those which happen to have no items. Accordingly, as the delivery clerks pass

2d Teller.

No. 1.

BANK OF NEW YORK NAT'L BANKING ASSOCIATION

FROM No. 61.

THE FOURTH NATIONAL BANK.

.....1900

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the desks, as is described farther on, it is the rule to deposit the "small ticket" with the receiving clerk in each case, whether there is a package corresponding to it or not. When the settling clerks come to make their summing up, first checking back by the small tickets, they



No. 61.

New York Clearing-house,

.....1900

Credit Fourth National Bank, \$.....

.....Settling Clerk.

Form of "First" or Credit Ticket.

find that the blank spaces in their sheets are justified by the blank tickets of corresponding numbers, and are in this respect assured of the correctness of their work.

When the hand of the clock points to a few minutes before 10 the manager appears in his gallery, usually surrounded by a group of visitors. At one minute before 10 he sounds a gong as a signal for each of the clerks to station himself in his proper place. The settling clerks occupy their separate desks on the inside of the counter,

No. 1.		
BANK OF NEW YORK		
NATIONAL BANKING ASSOCIATION.		
From No. 61		
Fourth National Bank.		
\$		

Fac-simile of "Small Ticket" Deposited by Messenger with
Settling Clerk.

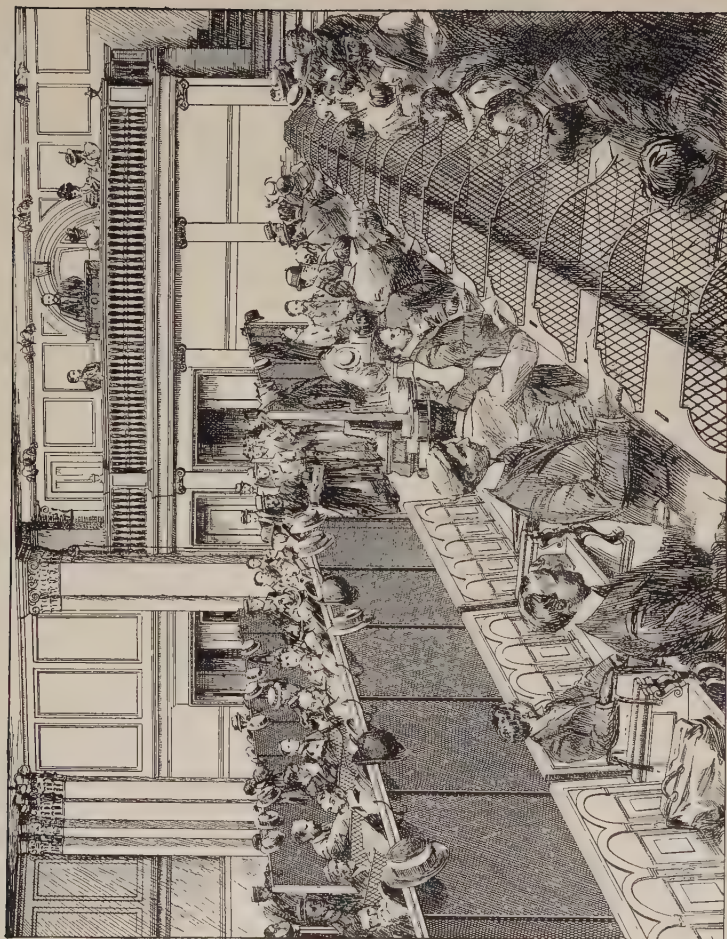
while the delivery clerks form on the outside with their exchanges either on the left arm or carried in a box or case of some light material. The delivery clerks arrange themselves in the consecutive desk order, and stand ready for delivery as they pass along the counter. They carry "delivery clerks' receipts" containing the amounts for each bank arranged in order, upon which the several

settling clerks, or their assistants, give receipts for the package delivered.

All are now in position for the exchange. The manager calls "ready," and promptly at 10 o'clock he sounds the gong again and the delivery of the packages begins. He looks down upon four columns of young men moving simultaneously like a military company in step. At the start each advances to the desk in front where his first delivery is to be made. He deposits the package of items and also the receipt slip on which the assistant of the settling clerk (or, in the case of small banks, the settling clerk himself) writes his initials opposite the amount of the package delivered in the blank space provided for that purpose. At the same time, in an opening in the desk provided for that purpose, he deposits a "small ticket" containing the amount of the package. If correct, it must agree with the amount listed on the "exchange slip." This process is repeated at the desk of all the banks, each clerk making the complete circuit in ten minutes to the point from which he started.

Being now at liberty, each delivery clerk takes back to his bank the exchanges deposited by the other messengers, while the settling clerks remain until the proof is made.

The settling clerks, immediately upon the completion of the exchange of packages, sum up, as quickly as possible, the amounts entered on their statements under the head of "Banks Dr." Upon ascertaining the total they make out a "second ticket," containing the credit and debit exchanges and the balance, and send the same to the "proof clerk," who transcribes the debit exchange



View in Clearing-room, New York Clearing-house. Clearings in Progress.

No. 61. THE FOURTH NATIONAL BANK.

Delivery Clerk's Receipts, 1900

No.	BANKS.	DR.		DR.	SIGNATURES.
1	Bank of N. Y. Nat'l Bk'g Assoc'n.				1
2	Bank of the Manhattan Company.				2
3	Merchants' National Bank.....				3
4	Mechanics' National Bank.....				4
6	Bank of America.....				6
7	Phenix National Bank.....				7
8	National City Bank.....				8
12	Chemical National Bank.....				12
13	Merchants' Exchange Nat'l Bank.				13
14	Gallatin National Bank.....				14
82	Fifth National Bank.....				82
83	Bank of the Metropolis.....				83
84	West Side Bank.....				84
85	Seaboard National Bank.....				85
87	Western National Bank.....				87
88	First National Bank, B'klyn.....				88
90	National Union Bank.....				90
91	Liberty National Bank.....				91
92	N. Y. Produce Exchange Bank....				92
93	Bank of New Amsterdam.....				93
94	Astor National Bank.....				94

Form of Delivery Clerk's Receipts.

No. 61. THE FOURTH NATIONAL BANK.

Settling Clerk's Statement, _____ 1900

No.	BANKS.	DEBIT.		DEBIT.		CREDIT.		
1	Bank of N. Y. Nat'l Bk'g Assoc'n.							1
2	Bank of the Manhattan Company.							2
3	Merchants' National Bank.....							3
4	Mechanics' National Bank.....							4
6	Bank of America							6
7	Phenix National Bank.....							7
8	National City Bank.....							8
12	Chemical National Bank.....							12
13	Merchants' Exchange Nat'l Bank.							13
14	Gallatin Naional Bank.....							14
82	Fifth National Bank.....							82
83	Bank of the Metropolis.....							83
84	West Side Bank							84
85	Seaboard National Bank.....							85
87	Western National Bank.....							87
88	First National Bank, B'klyn.....							88
90	National Union Bank.							90
91	Liberty National Bank.....							91
92	N. Y. Produce Exchange Bank....							92
93	Bank of New Amsterdam.....							93
94	Astor National Bank.....							94
	FOOTINGS.....							
	BALANCES							

Form of Settling Clerk's Statement.

under the head of "Banks Dr." (the credit exchange having been already entered), and the balance on the credit or debit side, as the case may require.

While this is being done the settling clerks are checking back from the small tickets to ascertain whether the amounts agree with the amounts listed on their statements from the exchange slips. By this time the proof clerk has footed the four columns on his sheet, namely, the debit and credit exchanges and the debit and credit balances. If the former two agree with the latter two the work is correct, and the result is announced by the manager, who calls off credits and debits.

As he calls off these balances, which are named in thousands of dollars, the hundreds and fractional parts being omitted, the clerks list the amounts on a special slip provided for the purpose, and thereby secure a general report of the balances of the day to take back with them for the inspection of their several cashiers. By these reports the managers of the several banks are informed of those who have balances to be paid them by the clearing-house, and also of those who are to pay amounts into the clearing-house.

The time elapsed since the manager sounded his gong for starting the work, up to the completion of the proof, is perhaps forty-five minutes, or possibly a little more. Three-quarters of an hour is the limit, before fines are in order, against those who have made the errors that prolong the work; but it is not often that it becomes necessary to impose fines. The record time is thirty-five minutes, although the dates when the proof has been reached in thirty-seven to forty minutes from the time

No. 61.

New York Clearing-house,

1900.

Debit FOURTH NATIONAL BANK, Am't rec'd, \$

Credit " " brought, \$

\$ Debit Balance Due Clearing-house.

Cr. bal. due FOURTH NATIONAL BANK, \$

Settling Clerk.



Form of "Second" Ticket.

the delivery clerks started on their rounds are numerous. When a particularly good showing in this regard has been accomplished the announcement of the result by the manager is very likely to be greeted with applause.

But suppose, as not infrequently happens, there is a discrepancy. The proof-sheet does not balance, which clearly indicates that there is an error in the work of one or more of the clerks. The manager immediately announces the difference and the clerks proceed to search for it.

Various methods are resorted to, according to the nature of the difference. Usually the manager calls for an exchange of sheets, to the right or to the left, for examination of footings, and in cases of apparent error in entry the amounts are called back. This is the final method of revision, and if the additions are correct it must make the proof.

Thus far no money has entered into the transaction. Checks, notes, drafts, and other items have passed through the exchanges, but as yet no occasion has arisen for the use of a single penny. Evidently, however, the clearing is not yet complete. Each member has in its possession paper drawn upon itself which the other members have credited on their books, and likewise each member has given in exchange to each of the other members the paper drawn upon them respectively and which it has credited upon its own books. But the possibility is very remote that the amounts of the items delivered by any member to the other banks will exactly balance the sum-total of the items received from them. Indeed, so slight is the chance of such an agreement, that in the

NEW YORK CLEARING-HOUSE PROOF, 1900

No.	BANKS.	DUE CLEARING-HOUSE.	BANKS.		Cr.	DUE BANKS.	
			Dr.				
1	Bank of N. Y. Nat'l Bk'g Assoc'n.....						1
2	Bank of the Manhattan Company.....						2
3	Merchants' National Bank.....						3
4	Mechanics' National Bank.....						4
6	Bank of America.....						6
7	Phenix National Bank.....						7
8	National City Bank.....						8
10	Tradesmen's National Bank.....						10
12	Chemical National Bank.....						12
13	Merchants' Exchange Nat'l Bank.....						13
14	Gallatin National Bank.....						14
90	National Union Bank.....						90
91	Liberty National Bank.....						91
92	N. Y. Produce Exchange Bank.....						92
93	Bank of New Amsterdam.....						93
94	Astor National Bank.....						94

Form of Proof Clerk's Sheet.

whole history of the association there has not been a single instance of this kind, although, as we shall see, the approach on one occasion was within one cent of an exact exchange. Hence, each day after the exchange the general proof will show a debit on the part of some banks and a corresponding credit on the part of others. To complete the clearings, therefore, it is necessary for the banks to settle these balances.

Accordingly, before half-past 1 o'clock each debtor bank, in compliance with the requirement of the constitution, pays into the clearing-house the amount of its debit balance and obtains a receipt for the same, signed by the assistant manager. After half-past 1 o'clock the creditor banks receive at the clearing-house their respective balances and give their receipt for the same in a book provided for that purpose; but in no case can a creditor bank receive its balance until all the debtor banks have paid in.

With the exception of fractional amounts, balances are settled with legal tender notes, gold coin, United States and clearing-house gold certificates. All money is paid to the clearing-house in packages made up in amounts of one thousand dollars, two thousand dollars, three thousand dollars, four thousand dollars, five thousand dollars, ten thousand dollars, twenty thousand dollars, fifty thousand dollars, and one hundred thousand dollars, and sealed with five seals having the bank's name or symbol thereon, also the amount in figures and in words, the date, the kind of money, as "legal tenders," "treasury notes," "gold," etc., plainly written or printed on each package. No package of over five thousand dollars, ex-

1900

No.	BANKS.	Dr.	Cr.
1	Bank of N. Y. Nat'l Bk'g Assoc'n, .		
2	Bank of the Manhattan Company, .		
3	Merchants' National Bank,		
4	Mechanics' National Bank,		
6	Bank of America,		
7	Phenix National Bank,		
8	National City Bank,		
88	First National Bank, B'klyn,		
90	National Union Bank,		
91	Liberty National Bank,		
92	N. Y. Produce Exchange Bank, . . .		
93	Bank of New Amsterdam,		
94	Astor National Bank,		
	Exchanges,		
	Balances,		

Form of Settling Clerk's Report to His Bank of Daily Balances.

cept the twenty-thousand-dollar packages, contains more than one hundred bills; the twenty-thousand-dollar packages may contain two hundred one-hundred-dollar bills. Packages containing legal tender notes are made up in amounts of one thousand dollars, two thousand dollars, three thousand dollars, four thousand dollars, five thousand dollars, ten thousand dollars, and twenty thousand dollars each, and all notes of a smaller denomination than five hundred dollars are put up in packages of not over five thousand dollars each. Unless it is necessary to obtain change, packages are never broken at the clearing-house, but are paid out as received.

By virtue of their convenience and safety, the clearing-house certificates, elsewhere referred to, are now used extensively in the liquidation of balances. These are of two kinds—those issued upon the deposit of gold coin in the clearing-house vaults, and those issued upon the deposit of gold coin with the assistant treasurer of the United States. Such certificates are issued in denominations of five thousand dollars and ten thousand dollars, corresponding to the full par value of the gold deposited, and are made negotiable only among the associated banks by indorsement on the back.

The holders of these certificates are the absolute owners of the gold represented by them, and are at liberty to redeem the same at any time during banking hours. It is entirely optional with the members to make such deposits or not. They act according to their pleasure; but any member holding such certificates and transferring the same to any party not a member, is subject to a fine of one hundred dollars for each offence.

New York Clearing-house.

No. 61. New York Clearing-house.....1900

Received from the FOURTH NAT'L BANK,

Dollars in full for balance due the Associated Banks,

\$.....Asst. Manager.

Manager's Receipt.

No.

New York,

1898.

\$

New York Clearing-house Association

THIS CERTIFIES that there have been deposited with the NEW YORK
CLEARING-HOUSE ASSOCIATION by the

..... Dollars
in United States Gold Coin, to be held as a special deposit, payable in said coin to the order of
said Bank, on demand, to any Bank member of the New York Clearing-house Association,
only on surrender of this certificate indorsed by the Bank demanding payment of the same.

Registered at the New York Clearing-house,

NEW YORK CLEARING-HOUSE ASSOCIATION,

by W. A. NASH, Acting Chairman Clearing-house Committee.

WM. SHERER, Manager.

THIS CERTIFICATE IS ISSUED FOR CLEARING-HOUSE PURPOSES ONLY.

Form of Gold Certificate—Face.

No.

Registered at the
NEW YORK CLEARING-HOUSE,

New York,.....1898.

*Pay only to any Bank member of the New
York Clearing-house Association.*

Form of Gold Certificate—Back.

RESOLUTION ADOPTED OCTOBER 2, 1860.

Any member of the Clearing-house Association who shall pay or deliver to any party, other than a member of the said Association, the certificate of deposit of the Clearing-house Depository, shall be subject to a fine of \$100 (one hundred dollars).

The Bank of America was originally constituted a common coin depository, to hold in special trust and to issue certificates in denominations of one thousand dollars, five thousand dollars, and ten thousand dollars upon the deposit of such gold coin as the other banks might place therein.

The clearing-house has been its own depository since its removal to the new location. Sometimes, when gold coin is in demand or there is a stringency in the money market, the coin is withdrawn from the depository by presentation of these certificates in considerable amounts. At other times the coin is freely deposited.

A careful record is kept at the clearing-house of the amounts of money and certificates used in the settlement of balances. Some idea of the relative proportion of the various kinds of money and certificates employed may be gained from the record for the year ending September 30, 1899. The debit balances paid in were as follows:

U. S. gold coin.....	\$233,309,000.00
U. S. bearer gold certificates.....	3,386,000.00
U. S. order gold certificates.....	750,000.00
Clearing-house gold certificates.....	2,824,210,000.00
U. S. legal tender and change.....	24,316,370.53
Total	<u>\$3,085,971,370.53</u>

The course pursued by the manager in the event of failure on the part of any member to appear at the proper hour to pay the balance against it differs somewhat from that pursued in many other associations. Section 16 of the constitution provides that in such an emergency the

“several banks exchanging at the clearing-house with the defaulting bank shall immediately furnish the manager the amount of that balance in proportion to their respective balances against that bank resulting from the exchanges of the day, and the manager shall make requisition accordingly, so that the general settlement may be accomplished with as little delay as possible. The respective amounts so furnished the clearing-house on account of the defaulting bank will, of course, constitute claims on the part of the several responding banks against that bank.”

Thus it will be observed that they shall “immediately furnish the manager the amount of that balance in proportion to their respective balances” against the defaulting bank. Most clearing-houses in a similar exigency require that a defaulting member shall deliver to the manager all the checks received through the clearing-house on the day of default, and that the latter shall return the same to the members clearing them. Similarly, all the members receiving checks from the defaulting member on that day are required to surrender the same to said defaulting member, after which the clearing of the day is readjusted and a new settlement made, the same as if no items had been sent through by or on the defaulting member. There have been cases, however, where the insolvency of a bank was known before clearing hour, whereupon the clearing-house committee has declined to allow it to clear.

The association is in no way responsible for the balances, except in so far as they are actually paid into the hands of the manager, and then its responsibility is

strictly limited to the faithful distribution by him among the creditor banks of the amounts which he has received. Should any losses occur while the balances are in his custody, the associated banks must bear the same in proportion to the other expenses. Any error in the exchanges and claims arising from the return of checks, or from any other cause, are adjusted directly between the banks concerned.

The association is free from responsibility for the contents of sealed bags or packages received at the clearing-house, and all reclamations for errors or deficiencies in the contents of said sealed bags or packages must be made by 1 o'clock on the following day by the receiving bank directly against the bank whose mark the sealed bag or package bears. "All checks, drafts, notes, or other items in the exchanges, returned as not good or missent, must be returned the same day directly to the bank from which they were received, and the said bank must immediately refund to the bank returning the same the amount which it had received through the clearing-house for the said checks, drafts, notes, or other items so returned to it in specie or legal tender notes. But checks, drafts, notes, or other items to be returned for informality of indorsement may, after being certified by the bank returning it, be returned through the exchanges the following morning, not exceeding five thousand dollars in amount to any one bank."

An amendment to this section was made on June 4, 1884, providing that in case of the refusal or inability of any bank to refund promptly to the bank presenting items not good, the bank holding them may report the

amount of the same to the manager, whose duty it shall be, with the approval of the clearing-house committee, to take from the settling sheet of both banks the amount of such items and readjust the clearing-house statement and declare the correct balance, in conformity with the change so made, provided such report is given to the manager before 1 o'clock of the same day.

All checks and notes, drafts, and bills of exchange, when certified by the banks on the previous day, are proper clearing matter. Also for the convenience of members, various kinds of money orders, though not authorized by the association, are accepted through the exchanges. Clearing items with restricted indorsements is prohibited by a resolution adopted June 4, 1896, as follows:

“Resolved, That on and after the first day of July, 1896, members of this association shall not send through the exchanges any checks, sight drafts, notes, bills of exchange, or other items having thereon any qualified or restrictive indorsements, such as ‘for collection’ or ‘for account of,’ unless all indorsements thereon are guaranteed by the bank, member of the association, sending such checks, drafts, notes, bills of exchange, or other item. Any such items sent in violation of the above requirements shall be returned directly to the member from which they were received, and shall in all respects be subject to the regulations contained in Section 15 of the constitution of the New York Clearing-house Association.”

In response to many inquiries as to what indorsements are considered restrictive or qualified under the above

resolution, the clearing-house committee replied that though in its opinion the forms "For Deposit" and "For Deposit to the Credit of" do not fall under the class of indorsements within the purview of the clearing-house resolution, they are to a certain extent considered restrictive when followed by other indorsers, and that inasmuch as the clearing-houses of several other cities have decided not to accept the indorsements "For Deposit" or "For Deposit to the Credit of," and decline to pay any item with other than a plain indorsement thereon, members of the association should request their correspondents and depositors to use the following form: "Pay _____ Bank or order," which, if used, would prevent delay and possible loss in the collection of checks and other items.

The expenses of the association have not always been borne by the members in the same proportion. Section 22 of the constitution, as originally adopted June 6, 1854, is as follows: "The expenses of the clearing-house, not including the expense of printing for the several banks (which last-mentioned expense shall be apportioned equally), shall be borne and paid by the several banks belonging to the association, according to their respective capitals, as follows: Banks having capitals of less than five hundred thousand dollars shall pay one hundred dollars each annually. Banks having capitals of less than one million dollars, and not less than five hundred thousand dollars, shall pay two hundred dollars each annually. Banks having capitals of one million dollars and over shall pay three hundred dollars each annually. And in the same proportion if more funds are necessary."

In 1864 the constitution was referred to a committee of five members for amendment and revision. In due time they reported the changes they had made, and on January 24, 1865, the constitution was adopted as amended. It appears that prior to that time the above section was in force, requiring that members be assessed for expenses in proportion to capital, but that the change essentially to the present plan was then introduced.

Prior to 1890 no charge was made upon non-members clearing, but on October 14th of that year a resolution was passed, fixing an annual assessment of two hundred dollars upon each non-member. On December 21, 1896, an amendment was made to this resolution, changing such assessment to five hundred dollars instead of two hundred dollars. Original members paid no admission fee.

Since the revision of 1865 the printing expenses have been divided equally, and each bank has paid an annual assessment of two hundred dollars, and, in addition, its portion of any further sum necessary rated on the amount of exchanges which it has brought to the clearing-house during the preceding year. These proportions are made out from the records at the clearing-house, after deducting the fixed annual assessment upon non-members and members, any fees that may have accrued from the admission of members, and rents due the association.

There is another important feature entering into the element of expenses which must not be overlooked. In associations where the clearing-house is rented property, it is comparatively easy, in fixing upon newly elected

members their proportionate share of the current expenses, to do justice to all concerned. But in New York the situation is unique. The association owns its own clearing-house, for erection of which a heavy draft was made upon the members. Clearly, therefore, banks subsequently joining should in some way render to the other members a just compensation for the privileges they acquire.

Such compensation is duly provided for in the following plan: Preliminary to the erection of a clearing-house nine thousand shares were issued—eight thousand nine hundred and seventy-five in the name of the president of the Clearing-house Association and twenty-five in the names of the five directors of the Clearing-house Building Company, who held the same in trust. Certificates to the value of the shares were then issued to the banks in proportion to their respective capitals and surplus, and they in turn advanced the money for the erection of the clearing-house. Each bank advanced an amount of money equal to the face value of the certificates it held. This was done under an agreement that it should receive a stipulated rate of interest on its certificates, such interest to be raised by assessments upon the members according to capital. These certificates are not transferrable so long as the holder is a member of the association, but if at any time it should cease to be a member the association is given the preference in their purchase.

The fines collected are applied to the reduction of the expenses. The following table, showing the amounts of fines for each year from 1885 to 1899, will be of interest:

1885	Amount	of	fines	collected	\$1,015
1886	"	"	"	"	1,002
1887	"	"	"	"	1,422
1888	"	"	"	"	1,398
1889	"	"	"	"	1,121
1890	"	"	"	"	1,046
1891	"	"	"	"	885
1892	"	"	"	"	749
1893	"	"	"	"	989
1894	"	"	"	"	538
1895	"	"	"	"	521
1896	"	"	"	"	535
1897	"	"	"	"	542
1898	"	"	"	"	407
1899	"	"	"	"	562

The maximum for this period, one thousand four hundred and twenty-two dollars, which is also the maximum for the whole history of the clearing-house, was attained in 1887, and the minimum in 1898. The decline has been nearly uniform since 1887. The gradual falling off from year to year has been due, in the main, to improvement in the discipline, and greater care and efficiency on the part of the clerks.

The following gives the scale of fines in force at the clearing-house:

Forty-five minutes from the hour of commencing—*viz.*, 10 o'clock—will be allowed for a proof. For all errors remaining undiscovered at 11.15 o'clock the fines will be doubled, and at 12 o'clock quadrupled.

1. All errors on the credit side of the settling clerk's

statement (*i.e.*, in the amount brought), whether of footing or entry, and all errors causing disagreement between the credit entries, the check tickets, and the exchange slips, each three dollars.

2. Errors in making the debit (*i.e.*, amount received) entries, each two dollars.

3. Errors in the tickets reported to the clearing-house, causing disagreement between the balances and aggregate, each two dollars.

4. Errors in footing the amount received, one dollar.

5. Disorderly conduct of clerk or delivery clerk at the clearing-house or disregard of the manager's instructions, each offence, two dollars.

6. Clerk or delivery clerk failing to attend punctually with statements and tickets complete, at the morning exchanges, each two dollars.

7. Debtor banks failing to appear to pay their balances before 1.30 o'clock, three dollars.

8. Errors in delivery or receipt of exchanges, each one dollar.

It remains in this connection to give a table of figures showing the clearings for each year, from the establishment of the clearing-house in 1853 to the present time; also the balances for the same period, with other important statistics:

CLEARINGS FOR 46 YEARS.

Fiscal years ending Sept. 30	No. OF MEMBERS	CLEARINGS FOR YEAR	AVERAGE DAILY CLEARINGS
1854	50	\$5,750,455,987.06	\$19,104,504.94
1855	48	5,362,912,098.38	17,412,052.27
1856	50	6,906,213,328.47	22,278,107.51
1857	50	8,333,226,718.06	26,968,371.26
1858	46	4,756,664,386.09	15,393,735.88
1859	47	6,448,005,956.01	20,867,333.19
1860	50	7,231,143,056.69	23,401,757.47
1861	50	5,915,742,758.05	19,269,520.38
1862	50	6,871,443,591.20	22,237,681.53
1863	50	14,867,597,848.60	48,428,657.49
1864	49	24,097,196,655.92	77,984,455.20
1865	55	26,032,384,341.89	84,796,040.20
1866	58	28,717,146,914.09	93,541,195.16
1867	58	28,675,159,472.20	93,101,167.11
1868	59	28,484,288,636.92	92,182,163.87
1869	59	37,407,028,986.55	121,451,302.81
1870	61	27,804,539,405.75	90,274,478.59
1871	62	29,300,986,682.21	95,133,073.64
1872	61	33,844,369,568.39	109,884,316.78
1873	59	35,461,052,825.70	115,885,793.58
1874	59	22,855,927,636.26	74,692,573.97
1875	59	25,061,237,902.09	81,899,470.26
1876	59	21,597,274,247.04	70,349,427.51
1877	58	23,289,243,701.09	76,358,176.06
1878	57	22,508,438,441.75	73,785,746.54
1879	59	25,178,770,690.50	182,015,539.70
1880	59	37,182,128,621.09	121,510,224.25
1881	61	48,565,818,212.31	159,232,190.86
1882	62	46,552,846,161.34	151,637,935.38
1883	64	40,293,165,257.65	132,543,306.76
1884	62	34,092,037,337.78	11,048,981.55
1885	64	25,250,791,439.90	82,789,480.38
1886	64	33,374,682,216.48	109,067,588.94
1887	65	34,872,848,785.90	114,337,209.13
1888	64	30,863,686,609.21	101,192,415.11
1889	64	34,796,465,528.87	114,839,820.23
1890	65	37,660,686,571.76	123,074,139.12
1891	64	34,053,698,770.04	111,651,471.39
1892	65	36,279,905,235.59	118,561,781.82
1893	65	34,421,380,869.50	113,978,082.31
1894	66	24,230,145,367.70	79,704,425.55
1895	67	28,264,379,126.23	92,670,095.49
1896	66	29,350,804,883.87	96,232,442.24
1897	66	31,337,760,947.98	103,424,953.62
1898	65	39,853,413,947.74	131,529,418.97
1899	64	57,368,230,771.33	189,961,029.04
Totals,		\$1,231,423,418,499.23	\$87,415,590.26

Reproduction of a Table Issued by the New York Clearing-house.

One trillion two hundred and thirty-one billion four hundred and twenty-three million four hundred and eighteen thousand four hundred and ninety-nine dollars and twenty-three cents! It is difficult to comprehend the magnitude of such a sum. This is more than sufficient to run the whole machinery of our Government for two thousand years, and is one hundred and thirty-five times as much as all the gold and silver money in the world. If put up in eight-ounce duck bags in the form of silver dollars, it would require ten million two hundred and eleven thousand seven hundred and three cubic yards of space for storage; and to count it all in a single year, it would take twelve thousand men, counting at the rate of one hundred and seventy-five dollars a minute, day and night, without intermission.

These figures distance the transactions of all the other clearing-houses of the United States combined, whether we consider the sum-total of the exchanges since the inauguration of our clearing system or the current transactions.

It will be noted that the increase in clearings from year to year has not been uniform. The decrease was nearly fifty per cent. from 1857-58, due in a large measure to the panic of 1857. Thence the increase was normal until the outbreak of the Civil War, when business interests throughout the country received a severe blow, and the clearings declined till 1863, when there was a sudden turn, followed by an increase for the next three years.

The requirements of the new system soon exposed a weakness in the management of eight banks, and in con-

BALANCES PAID IN MONEY FOR 46 YEARS.

Fiscal years ending Sept. 30	No. OF MEMBERS	BALANCE FOR YEAR	AVERAGE DAILY BALANCE	Balances to Clear ^{gs}
				Per Cent.
1854	50	\$297,411,493.69	\$988,078.06	5 ¹⁷
1855	48	289,694,137.14	940,565.38	5 ⁴⁰
1856	50	334,714,489.33	1,079,724.16	4 ⁸³
1857	50	365,313,901.69	1,182,245.64	4 ³⁹
1858	46	314,238,910.60	1,016,954.40	6 ⁶⁶
1859	47	363,984,682.56	1,177,943.96	5 ⁶⁴
1860	50	380,693,438.37	1,232,017.60	5 ²⁶
1861	50	353,383,944.41	1,151,087.77	5 ⁹⁷
1862	50	415,530,331.46	1,344,758.35	6 ⁰⁴
1863	50	677,626,482.61	2,207,252.39	4 ⁵⁵
1864	49	885,719,204.93	2,866,405.19	3 ⁶⁷
1865	55	1,035,765,107.68	3,373,827.71	3 ⁹⁷
1866	58	1,066,135,106.35	3,472,453.79	3 ⁷¹
1867	58	1,144,963,451.15	3,717,413.80	3 ⁹⁹
1868	59	1,125,455,236.68	3,642,249.95	3 ⁹⁵
1869	59	1,120,318,307.87	3,637,397.10	2 ⁹⁹
1870	61	1,036,484,821.79	3,365,210.46	3 ⁷²
1871	62	1,209,721,029.47	3,927,665.68	4 ¹²
1872	61	1,428,582,707.53	4,638,255.54	4 ²²
1873	59	1,474,508,024.95	4,818,653.67	4 ¹⁵
1874	59	1,286,753,176.12	4,205,075.73	5 ⁶²
1875	59	1,408,608,776.68	4,603,296.65	5 ⁶²
1876	59	1,295,042,028.82	4,218,377.94	5 ⁹⁹
1877	58	1,373,996,301.68	4,504,905.90	5 ⁸⁹
1878	57	1,307,843,857.24	4,273,999.53	5 ⁸¹
1879	59	1,400,111,062.86	4,560,622.35	5 ⁵⁶
1880	59	1,516,538,631.29	4,956,008.60	4 ⁰⁷
1881	61	1,776,018,161.58	5,823,010.36	3 ⁶⁶
1882	62	1,595,000,245.27	5,195,440.54	3 ⁴²
1883	64	1,568,983,196.15	5,161,128.93	3 ⁸⁹
1884	62	1,524,930,993.93	4,967,201.93	4 ⁴⁷
1885	64	1,295,355,251.89	4,247,069.39	5 ¹²
1886	64	1,519,565,385.22	4,965,899.95	4 ⁵⁵
1887	65	1,569,626,324.77	5,146,315.82	4 ⁴⁹
1888	64	1,570,198,527.78	5,148,191.89	5 ⁰⁸
1889	64	1,757,637,473.47	5,800,783.74	5 ⁰⁵
1890	65	1,753,040,145.23	5,728,889.36	4 ⁶⁵
1891	64	1,584,635,499.88	5,195,526.21	4 ⁶⁵
1892	65	1,861,500,574.56	6,083,335.18	5 ¹²
1893	65	1,696,207,175.52	5,616,580.05	4 ⁹²
1894	66	1,585,241,633.52	5,214,610.63	6 ⁵⁴
1895	67	1,896,574,349.11	6,218,276.55	6 ⁷¹
1896	66	1,843,289,238.66	6,043,571.27	6 ²⁸
1897	66	1,908,901,897.67	6,300,006.26	6 ⁰¹
1898	65	2,338,529,016.43	7,717,917.54	5 ⁸⁷
1899	64	3,085,971,370.53	10,218,448.24	5 ³⁷
Totals,		\$58,640,345,106.12	\$4,162,727.69	4⁷⁶

Reproduction of a Table Issued by the New York Clearing-house.

sequence of their inability to meet the demand upon them for daily settlements, they were forced into liquidation. As a result, the second year shows a reduction in the total business of the clearing-house, followed by a gradual increase, till the panic of 1857. The decline in the volume of exchanges was nearly fifty per cent. from 1857-58, but by the following year the recovery was nearly complete, due in a large measure to the passage by Congress of the National Currency Act, which immediately expanded the circulation. At this point came another change, and there was a slight decrease in the clearing till 1869. This year was followed by an increase to nearly nine billions of dollars above the record of any previous year.

A gradual decline set in again, from which the business of the clearing-house did not fully recover for the next twelve years. Meanwhile the clearings had gone down in 1876 nearly sixteen billions of dollars below the total for 1869. The resumption of specie payments by the United States Government on the 1st of January, 1879, wrought a salutary change in the business and commercial interests of the country, and the consequent effect upon the business of the clearing-house was wonderful. For the year 1878 the total exchanges of twenty-two billion five hundred million dollars in round numbers increased to the prodigious sum of forty-eight billion five hundred and sixty-five million dollars for 1881, or over one hundred per cent. in three years, when the high-water mark was reached in the association's history, the exchanges for that year running far above the record for any previous or subsequent year.

The failure of two or three banks in 1884, notably the Marine Bank and the Wall Street Bank, produced a considerable reduction in the amount of exchanges, but the increase after 1885 was rapid, till 1892, when the volume of exchanges was again reduced, owing to the general stagnation in business and trade. In 1896 the volume of business was nearly twenty billions of dollars below the record of 1881. In considering this decline, it must not be forgotten that the establishment of the Stock Exchange Clearing-house in 1892 has detracted very greatly from the volume of these exchanges. It is estimated that to this fact is due a reduction of forty millions to sixty millions of dollars a day.

The variation in the ratio of balances to clearings during this period has not been, as a rule, abnormal. The maximum was reached in 1895, when the per cent. was 6.71, and the minimum in 1869, when it reached the low mark of 2.99 per cent.

The largest transactions for any one day since the organization of the clearing-house took place April 1, 1899, when they reached the prodigious sum of three hundred and seventy million two hundred and twenty-eight thousand nineteen dollars and twelve cents. The smallest transaction for any one day was October 30, 1857, amounting to eight million three hundred and fifty-seven thousand three hundred and ninety-four dollars and eighty-two cents.

The largest balance resulting from any one day's exchanges was on January 3, 1900, amounting to nineteen million seven hundred and eighty-eight thousand six hundred and sixty-five dollars and forty cents. The

smallest balance on record was on October 30, 1857, amounting to four hundred and eighty-nine thousand seven hundred and twenty dollars and thirty-two cents.

The greatest amount of exchanges brought to the clearing-house by any one bank was on May 23, 1899, amounting to fifty-three million three hundred and forty-one thousand seven hundred and eighty-two dollars and thirty-one cents. The greatest amount of exchanges taken away from the clearing-house by any one bank was on May 23, 1899—forty-five million eight hundred and sixty-nine thousand fifty-five dollars and ninety-six cents.

The largest balance ever paid by the clearing-house to any one bank was on May 9, 1899—thirteen million four hundred and sixty-two thousand three hundred and seventy-nine dollars and seventy-eight cents. The largest balance ever paid by a single institution to the clearing-house was paid by the Assistant Treasurer of the United States, September 19, 1890—eleven million five hundred and seventy-two thousand four hundred and one dollars and ninety-four cents. The smallest balance ever paid by the clearing-house to any one bank was on December 16, 1873, amounting to ten cents. The smallest balance ever paid to the clearing-house by any one bank was on September 22, 1862, amounting to one cent.

Such is the history of the New York Clearing-house. Standing foremost among the financial institutions of America, we may well forecast for it a future of still greater importance to the business world.

CHAPTER XIII

THE CLEARING-HOUSE ASSOCIATION OF THE BANKS OF PHILADELPHIA

Early History—Runners' Exchange—The Morning Exchange—Gold Depository—Clearing-house Due-bills—Settlements without the Use of Money—Comparison of Bank Statements—Collateral Security—Assessment of Expenses—Admission of New Members—Plan of Administration—List of Presidents—Failures and Resulting Litigation.

The Clearing-house Association of Philadelphia is a voluntary, unincorporated association of certain banks of that city; its chief object being to effect, at a central point called the clearing-house, the daily exchanges of items between the associated banks. It was established in 1858, five years after that of New York, and with essentially the same Rules and By-laws. Prior to this, the cashiers met at a central point and adjusted the balances in the morning exchanges, which were afterward collected in cash by the runners of the creditor banks at the counters of the debtor banks. In this exchange were included all items received in the morning mail.

The banks of Philadelphia are not so concentrated in location as are those of New York or Boston, and this very greatly enhanced the labor of the runners, who had to make the interchange of items. They called those banks most remote from the banking centre "the ex-

tremities," and it was indeed a most unenviable task to make the rounds of these daily. Accordingly, the feeling early prevailed that the exchanges would be greatly facilitated if only the items of the previous day were included in that day's exchange. In 1862, only four years after the establishment of the clearing-house, Wm. H. Rhawn, who for a long time was president of the National Bank of the Republic, proposed the introduction of a second exchange, and after a year's discussion by the clearing-house committee, it was adopted. This is called the Runners' Exchange, and it is so named because it is in a large measure a substitute for the work previously performed by the runners.

This runners' exchange includes all notes and acceptances due that day, and all items in the morning mail, made payable at the banks. Through it are nearly always returned the items not good that were included in the morning exchange.

The morning exchange takes place at 8.30 o'clock, and includes only the items of the previous day. The method is essentially the same as that of New York, and differs from that of Boston only in the requirement of a receipt for packages as delivered. The runners' exchange is fixed at 11.30, so that the clerks from the debtor banks at the morning exchange can pay their debts before the runners' exchange, and the clerks from creditor banks can receive the amounts of their credits after the exchange.

The method of the runners' exchange differs somewhat from that in the morning exchange. Only one clerk from each bank is employed; whereas two are required

No. Philadelphia, 189

Due by the Central National Bank,

In settlement of the Runner's Exchange.

Receivable only in the Exchanges from the Philadelphia National
Bank, when endorsed by John C. Boyd, Manager of the Philadelphia
Clearing House.

..... Thousand

..... Hundred

..... Dollars. 100

\$ for Teller.

Due-bill used in Settling Runner's Exchange by Philadelphia Banks.

in the earlier clearings. Each clerk upon his arrival first deposits the items which he holds on the other banks, and then takes his position at the desk of his own bank. Promptly at 11.30 o'clock each clerk begins to list and add the items deposited for his bank. The balances are then adjusted by due-bills or checks, after which the clerks repair to their several banks.

The method of settling balances at these two exchanges differs from that pursued in various other clearing-house associations. The Farmers' and Mechanics' National Bank receives in special trust such gold coin as any of the members voluntarily deposit with it for safe-keeping for clearing-house purposes. This deposit ranges at the present time from five million dollars to six million dollars. Against such deposits, certificates, in denominations of five thousand dollars and ten thousand dollars, are issued to the depositing banks, signed by the manager of the Clearing-house Association, or by his assistant, or by some other person designated by the association for the purpose, and countersigned by the Farmers' and Mechanics' National Bank. These certificates are negotiable only among the associated banks, and are receivable by them in the payment of balances at the clearing-house for the morning exchange. The coin thus placed on deposit is the absolute property of such of the associated banks as are, for the time, the holders of the certificates, and is held by the depository subject to withdrawal on presentation of the properly indorsed certificates at any time during banking hours.

There is also a constitutional provision that the manager of the clearing-house shall receive the certificates

Cashier.....

COUNTERSIGNED

This Due-bill is only good when signed by one
and is payable only in the exchanges through the
Clearing-House the day after issue.

CLEARING-HOUSE DUE-BILL

No..... *Philadelphia,* 189

Due by the *Bank*

To.....

..... Dollars

..... Teller

Clearing-house Due-bill, Philadelphia.

issued by the assistant treasurer of the United States for clearing-house purposes under any act of Congress, in settlement of balances due in the morning exchange. These certificates, it is provided, must be indorsed, "Pay to the order of a bank, member of the Clearing-house Association of the banks of Philadelphia." These certificates are issued in denominations of five thousand dollars and ten thousand dollars, and on legal tender notes only. Both the gold certificates and the legal tender certificates are exclusively used in the payment of the balances at the morning exchange; but, as they are in denominations of five thousand dollars and ten thousand dollars, exclusively, some other medium must be employed in the payment of balances and parts of balances under five thousand dollars at the morning exchange, and the total of each balance at the runners' exchange. This is done with clearing-house due-bills (see form on another page), issued by the debtor banks to the clearing-house manager, who deposits them in the Philadelphia National Bank, which, in turn, sends them through the exchanges against the debtor banks on the following day. These clearing-house due-bills can be used only on the day of issue, and are payable only in the exchanges through the clearing-house the day after issue.

The manager issues to creditor banks manager's checks on the Philadelphia National Bank for the amount of their credit, under five thousand dollars, being the amount of the due-bills deposited with that bank. Banks are required to give due-bills to the other banks upon demand, in payment of items at their counters, where the amount exceeds one hundred dollars. They are also re-

quired to furnish to each other, and to the manager of the clearing-house, the names and signatures of all persons authorized to sign or countersign due-bills.

By this means the balances are settled from day to day without the use of a single penny of money. The risk

WEEKLY STATEMENT							
Average Condition for the } Week preceding Monday, } 190.....							
Bank	Capital Stock	Loans and Discounts	Lawful Money Reserve	Due from Other Banks	Due to Other Banks	Deposits	Circulation
Due by				Due to			
\$.....				New York, \$.....			
.....							Cashier

Form of Weekly Statement Required of Philadelphia Banks.

attending the transfer through the streets of the city of large sums of money is obviated, and the greatest possible ease is secured in the receipt and disbursement of balances.

In 1891, after the runners' exchange had been in operation for some twenty-eight years, the question arose as

to its abandonment, partly on the ground of economy. The proposition to consolidate the two exchanges was brought up at one of the meetings of the association, but after considerable discussion it was laid on the table. The advantage to the banks of being able to ascertain before 3 o'clock whether the items received in the morning mail are good outweighed other considerations, and accordingly the original plan was continued.

The provision of the constitution regarding statements is as follows: Each bank shall furnish on Mondays, for publication, a statement of its average condition for the previous week, after deducting the daily exchanges from the gross figures of the preceding day. To each statement shall be appended the state of the account of the bank with New York on the day of report. These statements shall be certified by the president, cashier, or assistant cashier.

Each bank is also required to furnish a daily statement to the manager, but not for publication, certified by the general book-keeper. Such statement is to be made before the commencement of business and sent to the clearing-house with the morning exchanges. Thus the Philadelphia Association is more rigid even than New York in this particular, and, indeed, more exacting than any other clearing-house association in the country. In many cases, especially in the larger cities of the country, a weekly statement is required, but in no city, except Philadelphia, is a statement required oftener than once a week.

A comparison of the weekly statement of average condition of the Philadelphia banks with the Boston and

New York statements will reveal some interesting facts. A glance at the capital stock of the different banks in Philadelphia will show an average far below that of

20	Philadelphia,	189
DAILY STATEMENT		
of THE FIRST NATIONAL BANK, as agreed by the action of a Meeting of the Clearing House Association, held January 8, 1872. Such Statement is to be made <i>every</i> day before the com- mencement of business, and sent <i>with the Exchanges</i>, to the Clearing House, at or before half-past Eight o'clock, A. M.		
Loans and Discounts, including all Interest		
Bearing securities of the United States,		
Individual Deposits,		
Banks' and Bankers' Deposits,		
Total Deposits,		
Less Due from Banks and Bankers, exclusive of Reserve Agents, <i>f d</i>		
Net Deposits,		
Specie,		
U. S. Legal Tender Notes,		
U. S. Legal Tender Certificates,		
U. S. Treasury Gold Certificates,		
Clearing House Gold Certificates,		
Cash Reserve,		
Due by Reserve Agents,		
Total Reserve,		
Circulation,		
National Bank Notes,		
<i>I certify that the above statement is correct as shown by the books of the Bank.</i>		
<i>General Exchange</i>		

Form of Daily Statement Employed by the Banks of Philadelphia.

New York or Boston. Of the thirty-three members, only three are capitalized at one million dollars each; two at one and a half million dollars, and one at two million

AVERAGE CONDITION OF THE BANKS IN PHILADELPHIA,

For the Week preceding Monday, October 16th, 1899,

As furnished by JOHN O. BOYD, Manager Philadelphia Clearing House.

BANKS.	CAPITAL STOCK	LOANS AND DISCOUNTS	Lawful Money Reserve	Due fr. Bks.	Due to Bks.	DEPOSITS	Circulation
No. 1 PHILADELPHIA NATIONAL	\$1,600,000	\$16,788,000	\$5,655,000	\$1,264,000	\$3,794,000	\$14,029,000	\$270,000
2 NORTH AMERICA	1,000,000	7,480,000	3,001,000	927,000	1,187,000	7,841,000	89,000
3 FARM'S & MECH'S NATIONAL	2,000,000	8,544,000	1,731,000	1,290,000	3,479,000	4,873,000	1,132,000
5 MECHANICS NATIONAL	500,000	4,181,000	796,000	468,000	1,715,000	1,916,000	356,000
6 NAT. BK. OF N. LIBERTIES	500,000	3,540,000	789,000	221,000	317,000	3,002,000	45,000
7 SOUTHWARK NATIONAL	250,000	1,206,000	293,000	55,000	88,000	1,153,000	45,000
8 KENSINGTON NATIONAL	250,000	1,326,000	371,000	78,000	.....	1,206,800	134,000
9 PENN NATIONAL	500,000	3,880,000	1,022,000	247,000	467,000	3,708,000	45,000
10 WESTERN NATIONAL	400,000	2,817,000	842,000	231,000	925,000	2,237,000	311,000
11 MANUFACTURERS NATL	500,000	2,473,000	550,000	214,000	749,000	1,906,000	45,000
13 GIRARD NATIONAL	1,000,000	6,909,000	1,650,000	1,100,000	2,110,000	5,449,000	45,000
14 TRADESMEN'S NATIONAL	500,000	3,767,000	1,218,000	862,000	1,228,000	2,772,000	45,000
15 CONSOLIDATION NATIONAL	300,000	1,673,000	331,000	190,000	243,000	1,202,000	270,000
16 CITY NATIONAL	400,000	1,379,000	334,000	84,000	3,000	942,000	45,000
18 CORN EXCHANGE NATIONAL	500,000	7,321,000	2,362,000	1,168,000	5,330,000	4,905,000	45,000
19 UNION NATIONAL	500,000	3,208,000	921,000	318,000	1,135,000	2,188,000	209,000
20 FIRST NATIONAL	1,000,000	7,729,000	2,574,000	900,000	3,863,000	6,159,000	45,000
21 THIRD NATIONAL	600,000	3,752,000	1,066,000	320,000	678,000	2,780,000	44,000
23 SIXTH NATIONAL	150,000	921,000	304,000	64,000	.....	944,000	23,000
25 EIGHTH NATIONAL	275,000	2,354,000	661,000	168,000	2,000	2,342,000	43,000
26 CENTRAL NATIONAL	750,000	7,975,000	2,152,000	518,000	2,860,000	5,853,000	45,000
28 NATIONAL SECURITY	250,000	1,778,000	441,000	157,000	.....	1,850,000	89,000
29 CENTENNIAL NATIONAL	300,000	2,304,000	816,000	203,000	268,000	2,493,000	90,000
30 MERCHANTS' NATIONAL	600,000	7,446,000	1,863,000	1,078,000	5,755,000	4,414,000	635,000
32 INDEPENDENCE NATIONAL	500,000	4,224,000	1,191,000	462,000	1,682,000	3,599,000	45,000
33 NINTH NATIONAL	300,000	1,696,000	508,000	325,000	16,000	1,929,000	91,000
34 TENTH NATIONAL	200,000	804,000	250,000	48,000	24,000	780,000	86,000
36 NORTHWESTERN NATIONAL	200,000	1,858,000	539,000	88,000	19,000	2,024,000	86,000
37 SOUTHWESTERN NATIONAL	200,000	763,000	141,000	36,000	.....	722,000	45,000
39 FOURTH STREET NATIONAL	1,500,000	19,354,000	5,358,000	918,000	12,916,000	10,665,000	675,000
40 MARKET STREET NATIONAL	500,000	2,784,000	845,000	368,000	308,000	3,264,000	45,000
42 QUAKER CITY NATIONAL	500,000	2,216,000	488,000	84,000	10,000	1,946,000	269,000
43 NORTHERN NATIONAL	200,000	1,081,000	306,000	28,000	12,000	1,166,000	86,000
TOTALS	\$18,625,000	\$145,590,000	\$41,973,000	\$14,568,000	\$52,921,000	\$112,649,000	\$5,491,000

COMPARISONS {	Decreases.	Increases.	Increases.	Decreases.	Increases.	Decreases.
	\$2,187,000	\$657,000	\$1,459,000	\$1,314,000	\$1,137,000	\$41,000

CLEARINGS AND BALANCES.		
Oct. 8th	\$10,143,677 78	\$1,909,327 87
" 10th	17,032,309 36	2,138,473 00
" 11th	15,816,391 03	1,710,442 96
" 12th	15,534,723 52	1,996,275 77
" 13th	15,681,202 08	1,613,501 76
" 14th	14,130,759 48	2,112,333 53
Total	\$86,339,753 27	\$11,880,554 80

A Statement of the Average Condition of Philadelphia Banks.

dollars, making a total of only six with a capital of one million dollars or more. The aggregate capital of the members is only about forty per cent. of that of the mem-

bers at Boston and thirty-three per cent. of the capital of the members at New York.

In Philadelphia, as in New York, the various items are included under seven heads, but are not the same throughout. Both give "Capital Stock" and "Circulation and Deposits" in common. New York reports "Loans" and Philadelphia "Loans and Discounts." Philadelphia reports also "Lawful Money Reserve," "Due from Banks," and "Due to Banks," which are not given in the New York reports.

In addition to the protection afforded each member by these statements, each bank, upon becoming a member, is required to deposit collateral with the clearing-house committee, as security for its daily settlements, in the following proportion to capital: Banks with capitals of eight hundred thousand dollars and over, ten per cent. Banks with capitals of five hundred thousand dollars and under eight hundred thousand dollars, fourteen per cent.; but not to be required to deposit over eighty thousand dollars. Banks with capitals over two hundred and fifty thousand dollars and under five hundred thousand dollars, twenty per cent.; but not to be required to deposit over seventy thousand dollars. Banks with capitals of and under two hundred and fifty thousand dollars shall deposit not less than fifty thousand dollars.

The rules of the association further provide that if, after any bank shall have become a member of the association, the clearing-house committee shall deem the collaterals deposited by such bank to be insufficient security for its daily transactions, the committee may from time to time require such bank to deposit additional col-

lateral security therefor. The rules also contain the following: "It is understood by all banks making such deposits that they alone are responsible for any loss on their collaterals deposited, resulting from the failure to make demand and protest, or from any other neglect or omission."

In case of default by any member, the clearing-house committee is instructed to apply their deposit of collateral "to the payment of any balances due by such bank at the clearing-house or to the reimbursement *pro rata* of the several banks furnishing any such balance, and the surplus, if any, shall be held by the committee as collateral security for any indebtedness of such defaulting bank to the clearing-house committee or to the association or any of its members, and also as security for all costs, expenses, and counsel fees, paid by the clearing-house committee for the collection of the security representing the deposit, or which the committee may be compelled to pay by reason of holding the same." The clearing-house committee is required to determine the times when exchanges or deliveries of collateral security shall be made.

The constitution further provides that, "Bills receivable deposited as such security shall in no case be received at more than seventy-five per cent. of their face value, unless accompanied by collateral security of greater value, when, in the discretion of the committee, such bills may be received to an amount not exceeding their face value. It shall be the privilege of each bank to examine twice a year, or oftener, at its option, the securities in the custody of the clearing-house committee, deposited by it as collateral security, to compare the same with the re-

ceipt given by the committee, and if found correct, to execute to the committee a certificate setting forth the different kinds and amounts thereof, and that the same are in the possession and custody of the committee at the date of such certificate. Such examination may be made by an officer of such bank, or by a committee of directors duly appointed for the purpose."

As in New York and Boston, the expense of printing is apportioned equally; but while other associations require that each bank shall be assessed a stated sum and pay the remainder thereafter, in proportion to its exchanges for a given period, the Philadelphia Association requires that all such expenses shall be borne by the several members, according to capital, as follows: Banks having capitals of less than five hundred thousand dollars shall pay one hundred dollars each annually. Banks having capitals of five hundred thousand dollars and less than one million dollars shall pay two hundred dollars each annually. Banks having capitals of one million dollars and upward shall pay three hundred dollars each annually, and in the same proportion if more funds become necessary. The expenses are much lower than at New York, Chicago, or Boston.

The fines, amounting to three hundred dollars to four hundred dollars annually, have always been donated to the Bank Clerks' Beneficial Association. In the last four or five years the disorder fines have amounted to only three or four dollars. None of the fines is high comparatively. For no offence is it greater than one dollar, except for failure to be punctual in the payment of debtor balances, in which case it is two dollars for each offence.

Banks may be admitted from time to time to membership in the association, but the requirements are more rigid than in any other city. Applications must be made to the clearing-house committee, and upon a favorable report by them to the association the applicant may be admitted by an affirmative vote of three-fourths of all the members, and by paying an admission fee of ten thousand dollars, and certifying assent to the Articles of Association. In no other city is the admission fee so high, and in only a few is more than a majority vote of the members necessary for admission.

The power of suspension is lodged in the clearing-house committee, but no suspension can take place unless a majority of the committee are present and vote unanimously in favor thereof. In the event of such action, it is the duty of the committee to call a meeting of the association immediately to take the matter into consideration.

The administration of the clearing-house is vested in a president, secretary, manager, assistant manager, committee of arbitration, and clearing-house committee. The latter committee, consisting of six bank officers, is elected annually and in it is vested almost absolute power. This committee appoints the manager and assistant manager, establishes rules to be observed at the clearing-house, subject to the approval of the association, and generally supervises clearing-house affairs. It has charge of the funds belonging to the association, draws on each bank for its quota of expenses, and submits to the association detailed accounts of expenditures. It takes into its custody the collateral securities required to be deposited

by the banks. This committee has power to remove the manager or any of the assistants whenever in its opinion the interests of the association require it. The committee can examine the books and assets of any member of the association, whenever it shall deem it necessary.

The committee of arbitration is also elected annually and is composed of six bank officers. Upon it devolves the duty of hearing and determining disputes between members of the association, when submitted to it by either party. The duties of this committee, however, are not very arduous, as the records show it has met only twice in twenty-one years.

The president is elected annually by ballot and presides at all meetings of the association. He is *ex-officio* member of each of the standing committees, and in his absence a president *pro tempore* is appointed.

At the beginning of the organization it happened that the man who had been longest president of a bank was made president of the association. He was repeatedly re-elected, his final term expiring after ten years of service. The precedent of electing and re-electing to the presidency of the association the one who has been longest president of a bank has since been adhered to, so that in the history of the association there have been only three presidents, as follows: Joseph B. Mitchell, from 1858 to 1868, inclusive; Joseph Patterson, from 1869 to 1887, and James V. Watson, whose term of office dates from 1887.

The secretary is elected at the annual meeting by ballot. It is his duty to keep correct minutes of the pro-

ceedings of the association in a book provided for the purpose.

The manager has immediate charge of all business at the clearing-house, and the clerks and messengers from the banks are under his direction. His decisions concerning details at the clearing-house are binding, until modified by the clearing-house committee. It is his duty to impose and collect fines fixed by the association for the violation of rules at the exchanges. With the assistance of the clerks, he performs the duties connected with the operation of clearing, the adjustment and payment of balances, the keeping of records, the preparation of the weekly statements, and, in a word, all the details of clearing. His salary is fixed by the association and he is required to give bond with sureties in the sum of twenty thousand dollars, subject to the approval of the clearing-house committee. In this connection it may be remarked that at Chicago a bond is required in the same amount, but at Boston and New York it is fixed at ten thousand dollars.

Permanent clerks are also required to give bond in the sum of ten thousand dollars each, with approved securities. Such bonds must be examined by the clearing-house committee at least once each year.

In the history of the Philadelphia Clearing-house, four of the member-banks have failed—namely, the Fourth National in 1874, the Spring Garden and the Keystone National in 1891, and the Chestnut Street National in 1897. The failure of the Keystone National Bank involved the receiver thereof and the seven members of the clearing-house committee in litigation. The facts con-

nected with the case and the result of the trial are very interesting and important to all clearing-house associations. The circumstances were briefly as follows:

On March 20, 1891, the Keystone National Bank made its regular exchanges at the clearing-house, bringing items to the amount of seventy thousand and five dollars and forty-six cents, and receiving one hundred and seventeen thousand and thirty-five dollars and twenty-one cents. The debtor balance of this bank, therefore, was forty-seven thousand and twenty-nine dollars and seventy-five cents. The bank failed to pay its balance at 12 o'clock, in accordance with the rules, and it was not subsequently paid. In compliance with a previous agreement between the associated banks and the Keystone National Bank, the manager was allowed to hold the exchanges received by the latter until the payment of the balance. Accordingly, he retained the packages in his possession, and, after 12 o'clock on the day of failure, notified the banks which had sent the exchanges that they must make them good by the payment into his hands of that amount of money. With this request they immediately complied and took away the packages.

In addition to the debit balance of forty-seven thousand and twenty-nine dollars and seventy-five cents on the morning of failure, the Keystone National Bank owed forty-one thousand one hundred and ninety-seven dollars and thirty-six cents, for which it had issued clearing-house due-bills in payment of its balance on the preceding day, and which due-bills, according to the common rule, were payable in the exchanges on the following day,

which in this case was the day of failure. Further, it owed three hundred and thirty-five thousand dollars on clearing-house loan certificates, issued to it by the association on the deposit of collateral security in obedience to the terms of a special agreement entered into between said bank and the Clearing-house Association. Acting under the instructions of the clearing-house committee, the manager appropriated the sum of one hundred and seventeen thousand and thirty-five dollars and twenty-one cents, furnished him by the banks, to the payment of the obligations of the Keystone National to the association as follows: In payment of the debit balance of the Keystone National Bank in that morning's exchanges, forty-seven thousand and twenty-nine dollars and seventy-five cents; to make good the due-bills given by the bank for its debtor balance on the preceding day, including due-bills given to the several banks, forty-one thousand one hundred and ninety-seven dollars and thirty-six cents; and the remainder, amounting to twenty-eight thousand eight hundred and eight dollars and ten cents, to the cancellation of a part of the three hundred and thirty-five thousand dollars in clearing-house loan certificates issued to that bank.

Upon a bill brought by the receiver of the defaulting bank against the seven members of the clearing-house committee, the Circuit Court rendered a decree for seventy thousand and five dollars and forty-six cents, with interest from March 20, 1891, against the defendants, on the ground that after the known insolvency of the named bank, they applied its funds in their hands or under their control to the payment of its debts to the Clearing-house

Association and to members thereof, with a view of giving them an unlawful preference over other creditors.

The Circuit Court of Appeals, to whom the case was appealed by the clearing-house committee, reversed this decree, on the ground that a *bona fide* exchange of items had taken place between the Keystone National Bank and its clearing-house association before the bank examiner had acted, and when the clearing-house association had no reason to suspect the impending failure. The transaction was in the regular course of business and with a view to continuing operation. The exchange was an accomplished fact, and the only thing remaining to be done was the payment by the Keystone National Bank of its debtor balance in the morning exchange. It failed to do this, and hence the action of the clearing-house manager in appropriating the money received from the various banks holding exchanges on the Keystone National Bank to the payment of the latter's obligations to the association was a justifiable procedure. The receiver of the Keystone National Bank finally appealed the case to the Supreme Court of the United States, and in March, 1897, a decision was rendered in favor of the clearing-house committee.

CHAPTER XIV

THE BOSTON CLEARING-HOUSE

Formation and Early History—Period of the Civil War—Settlement of Balances—Borrowing and Loaning Balances—Clearing for Outside Banks.

Only three years after the establishment of the New York Clearing-house a similar association was formed in Boston—namely, in 1856—for the purpose, as specified in the constitution, of effecting a more perfect and satisfactory settlement of the daily exchanges of checks and other items, and of the balances resulting therefrom. The constitution was modelled very closely on that of New York, and, although important changes have since been wrought in both, Boston still remains more nearly on the New York model than does any other important association in the United States. This is so, for the most part, because the New York Clearing-house was the only one at that time in the United States; and hence to it alone could Boston look for a model.

The history of the association has been both eventful and interesting. Prior to its establishment there was much opposition to it, on the ground that it was an “innovation upon the established order of things and of doubtful expediency,” but when the pressure in favor of its establishment became so great that opposition on the

part of a few was no longer of any avail and it became an established fact, its great practical utility was quickly demonstrated and the opposing banks soon came into it.

In less than two years after its formation the panic of 1857 burst upon the country, and in that crisis its usefulness was severely tested. In New York specie payments were suspended, whereupon the Boston banks immediately took action, and a committee was appointed to report to the association what course should be followed, in view of the action at New York. Upon the recommendation of that committee that Boston should follow the lead of New York, specie payments were suspended. It thus became necessary to provide some substitute for specie. Clearing-house loan certificates, based upon collateral as security, did not come into use until 1860, and hence a different course was taken from that generally pursued by clearing-houses in similar emergencies since that time.

The association voted to permit its members to use their own circulating notes in the settlement of balances to a limited amount, based upon the capital of each bank, in no case exceeding five per cent., except in the case of the Suffolk Bank, which was allowed ten per cent., it at the time being the redeeming agent for the note circulation of nearly all the New England banks. These bills thus received at the clearing-house were to be returned to the next day's settlement, and were to be at the joint risk of the banks in proportion to the amounts of their respective capitals; and the clearing-house committee were authorized to demand at their discretion satisfactory collateral security for such bills. The banks using

their notes at the clearing-house were required to pay one day's interest at a time.

The association, on the day following that upon which this plan was adopted, having been addressed by a committee representing the merchants of the city, who expressed their desire for an expansion of the bank loans, voted that the amount of circulating notes that may be used in settlements at the clearing-house be doubled. At a subsequent meeting, in order to encourage the use of specie, it was voted that the manager keep an account of the specie paid in by each bank, and in subsequent settlements repay to such bank, when a creditor, specie, this reimbursement to be in the order of payment by the banks.

A few weeks later the association voted that the amount for which the bills of the associated banks may be used in the liquidation of balances at the clearing-house, be reduced fifty per cent., and on December 14, 1857, just two months after suspension, a unanimous vote was cast in favor of the resumption of specie payments. It is probable that for a short time thereafter the use of bank-notes was continued, but within a week it was voted to discontinue altogether their further use at the clearing-house.

From this time on, the exchanges took place with little interruption till the outbreak of the Civil War, when anxiety and distrust again seized upon the country. In the latter part of 1860 it was voted to permit the banks to settle their balances at the clearing-house with their own circulating notes, to the extent of ten per cent. of their capital, it being voted at the same time that it was

the duty of the banks of Boston to maintain special payments in that crisis. There was much disturbance in financial circles from that time forward, and on August 27, 1861, the association voted that any bank which had agreed to the arrangement entered into by the banks in New York, Boston, and Philadelphia, with regard to the national loan, could deposit with the clearing-house committee treasury notes of that loan and receive certificates to an amount not exceeding ninety per cent. of the par value of such treasury notes. These certificates were to be known as loan certificates and were to be receivable at the clearing-house in the settlement of balances. These were the first certificates of the kind issued by the Boston association.

Not long thereafter the New York Clearing-house again suspended specie payments and was followed almost immediately by Boston, in a resolution declaring that they suspend specie payments, until such time as they could with safety resume their legitimate basis for circulation and deposit. That time did not, in the course of events, arrive until seventeen years had passed by.

Affairs drifted on from bad to worse until the panic of 1873, when the association again authorized the issue of clearing-house loan certificates, secured by collateral on substantially the same basis as the issue by the banks in New York. No further action of this kind was taken by the association until seventeen years later, when, in 1890, certificates were again issued, and these were followed by similar issues in 1893 and 1895. Such are the important features of the association's history.

The Boston Clearing-house is located at a central point

in Old State Street. Here, at 10 o'clock, on the morning of each business day, the representatives of thirty-nine banks, members of the association, meet and exchange the items which they hold upon each other. The clearing-house is elongated in form, with a double row of desks running full length, so placed as to leave sufficient space for the delivery clerks to pass around next the wall. The process of exchanging items is precisely the same as at New York, except that in Boston they have abandoned the practice of receipting for exchanges as delivered, on the ground that it is a useless expenditure of time.

In the settlement of balances, Boston has a system peculiarly its own. The constitution declares that "the debtor banks shall pay to the manager at the clearing-house the balances due from them respectively, either in coin or in such other currency as the laws of the association shall require, or in such certificates as shall be authorized by the Clearing-house Association, excepting sums less than one thousand dollars, which may be paid in bills of the debtor banks." Although coin is specified as acceptable in the payment of balances, it is tacitly agreed that no silver will be used, owing to its great bulk and consequent inconvenience. National bank-notes are not acceptable, nor are any other bills in denominations less than twenty dollars.

No money is brought to the clearing-house under seal except gold, and, with the exception of gold, all money is counted before being receipted for. Formerly, all gold coin was removed from the banks and weighed at the clearing-house, but this practice has been discontinued.

In the event of an error in the amount of currency received by a creditor bank, recourse can be had upon the clearing-house, provided such error is discovered by the clerk before leaving the clearing-room; but if, after leaving the clearing-house, he should return with a claim for an error or deficiency in the money received, no recourse upon the association would be possible, the claim in that case being adjusted between the paying and receiving bank. In case of an error or deficiency in the coin contained in bags, reclamations are made by the receiving banks directly against the banks whose marks they carry, the clearing-house being in no way responsible for the contents of such bags. The constitution specifies that such reclamations shall be made in reasonable time.

Each debtor bank, at the hour for making its settlement at the clearing-house, sends a ticket with an itemized statement of its balance, as shown in the illustrations.

On the back of the receipt which the manager gives the bank for its balance is a similar blank, and upon this, after counting each balance as it is paid in, he itemizes it, and if he finds that his statement agrees with the one sent in by the bank, he makes out a receipt for the whole, being satisfied that his work is correct. He retains the orders received from creditor banks as his receipts for their balances.

Not more than one-third of the total amount of the balances, perhaps, is settled by the method we have just described. Many years ago the custom sprang up at Boston of borrowing and loaning balances at the morning exchanges, and the settlement of the same by orders on the clearing-house, and this has grown to be one of the

most important features of their clearing system. It had its inception in a small way some thirty years since, as a matter of convenience to debtor banks, and is quite unlike

<i>Boston</i> ,.....			
BALANCE PAID CLEARING-HOUSE THIS DAY BY			
NATIONAL BANK OF REPUBLIC.			
Be sure and itemize your balance. Have bills properly strapped and distinctly marked.			
Change			
Bills			
Legal Tenders			
Clearing-house Gold Cts.			
Coin			
Gold Certificates . . .			
Orders			
Amount			

Form of Ticket Used by Boston Banks for Notifying Clearing-house Manager of Amounts Paid in Making Settlements.

anything else in the clearing-houses of the United States. Before its adoption, debtor banks which found their balances at the morning exchanges too great for convenient settlement with cash, but which could easily call in the

necessary amount later in the day, were accustomed to send their representatives through the streets to borrow from neighboring banks. Owing to the inconvenience and risk of this practice, the presidents and cashiers of the banks began to meet at the clearing-house, and then, after the exchanges had taken place, to borrow and loan their balances. The custom found favor with the banks and has gradually grown to such considerable proportions that some sixty per cent. of the total balances are now settled in this way. On the floor of the clearing-house at each morning exchange may be seen a busy group of bank officials, some borrowing balances, others negotiating loans.

A may find himself a heavy debtor and may desire to borrow of B, whose balance is a heavy credit. If B wishes to loan to A, he gives him an order on the clearing-house, and the latter uses it the same day in the settlement of his balance. All orders, therefore, on the clearing-house are accepted by the manager in the settlement of balances to the full extent of their face value. But A may not desire but a small part of B's balance, in which event B may find a dozen other banks anxious to borrow, to each of whom he may loan a portion. Again, some, not finding it advantageous either to borrow or loan, settle their balances by the usual cash payments at the clearing-house. In practice, some banks habitually loan, but never borrow. Others habitually borrow, but seldom or never loan.

Although no direct losses have ever occurred from this practice, it is strenuously opposed by conservative bankers on the ground that it is dangerous for banks to borrow so heavily when they may be called upon for the full

amount of the loan without a moment's warning. For example, A loans B seventy-five thousand dollars to-day, and the latter uses it in the settlement of his balance. B does not find it convenient to return the loan to-morrow, and A, finding an opportunity a day or two later for a better investment, sends through the clearing-house a check on B for the full amount. The latter is left with no alternative but to pay the balance or fail. Any objection, therefore, to such a custom seems on its face plausible, but, in practice, as is claimed, a severe check is placed upon the borrower by the discretion of the loaner. It is practically impossible for any member to be an habitual borrower without its being known to the other members. Thus creditor banks are enabled to exercise proper care in making loans, and thereby to avoid loss.

The rate of interest on such loans corresponds very closely with the rate on call loans. The newspapers regularly report the clearing-house rate, and this doubtless has some influence on the rate in the market. A prominent banker has said that the effect of this custom is to make the rate higher than it otherwise would be, as the banks needing the money must have it, no matter what the rate may be, but in a weak market it has the effect of making the rate lower, since banks having a surplus will accept a low rate rather than hold cash over.

One important disadvantage of this plan of borrowing and loaning balances, and one which has come into prominent notice in certain instances of late, should be mentioned in this connection. A bank that is a borrower of clearing-house balances is thereby deprived of the assistance in time of distress afforded by clearing-house loan

certificates. As before mentioned, the members of the clearing-house who are lenders of balances are very sure to know of a given bank that is an habitual borrower, and accordingly they are on their guard, watching for the opportunity to call for the amounts they have loaned whenever it would seem that the debtor bank could pay the same. As soon, therefore, as the debtor bank arranges for clearing-house loan certificates, its fellow-members, who are its creditors, hold out their hands for them, thereby exchanging unsecured claims against the bank for the very best security that it can put up. The debtor bank then is deprived of the advantage of clearing-house loan certificates up to the amount of its indebtedness to its fellow-members.

To put it otherwise, the act of borrowing balances in the clearing-house anticipates the help that otherwise the clearing-house could and would be to the bank when it really needed assistance. It is, of course, impossible to eat the cake and have it too. During the time this custom has prevailed in Boston, many banks, first and last, have found themselves embarrassed thereby, and have been compelled to struggle along in seasons of stringency without the help that clearing-house loan certificates would have afforded them, simply because to have asked for them would have advertised their condition in a manner to bring one class of their creditors down upon them in a way to nullify all the assistance they had obtained, and perhaps also draw the attention of the business public to the embarrassed condition, after they had exchanged their good bills receivable for clearing-house loan certificates.

The plan of borrowing and lending balances, although very generally acquiesced in by the banks of Boston, would seem to be fraught with danger. It would be less alarming, in the estimation of many conservative bankers, if the creditor banks were obliged by clearing-house rules to report from day to day to what institutions they have loaned their balances, either in whole or in part. Transactions of this kind, it would seem, ought to be noted in the clearing-house records.

A special committee has in charge the deposits of gold coin of member-banks of the Boston Clearing-house as a special trust fund, against which negotiable certificates are issued. This fund amounts at present to some ten million dollars, and certificates to the same amount have been issued against it.

On obtaining the written assent of the clearing-house committee, members of the association are allowed to clear for outside banks and trust companies; but any bank, member of the association, making such exchanges, is liable therefor, and in the same manner as for its own exchanges and until at least one day's notice in writing is given to the clearing-house committee. Accordingly, in Boston and vicinity, and within a radius of ten miles from State Street, are no less than nineteen national banks and eighteen trust companies making their exchanges through members of the association, upon such terms of security as are agreed upon between them and the clearing members. Full responsibility for their acts is placed upon the members through which they clear.

No statements whatsoever are required by the association from such outside institutions, it being left wholly

to the members to determine their condition. Members, however, are required to furnish the manager weekly statements of condition. An example of the form employed is given among the illustrations. A statement is also submitted of the condition of the associated banks of

WEEKLY STATEMENT							
Average Condition for the } Week preceding Monday, } 190.....							
Bank	Capital Stock	Loans and Discounts	Lawful Money Reserve	Due from Other Banks	Due to Other Banks	Deposits	Circulation
Due by				Due to			
\$.....New York, \$.....							
.....Cashier							

Form of Weekly Statement Employed by the Boston Banks.

Boston, as returned to the clearing-house for a given week.

A comparison of this statement with that required from the members at New York will show some interesting features, as well as some marked differences in many important details. The Boston banks are capitalized, on

Average Weekly Return

To the CLEARING HOUSE ASSOCIATION, from the BANK
 'in the City of Boston, made up at the close of business on Saturday, 189

CAPITAL	LOAN	CIRCULATION	INDIVIDUAL DEPT.	DUE TO BANK	DOS FROM RESERVE FUND	RECEIVED FOR CLEARING HOUSE	DUE FROM BANKS OTHER THAN RESERVE ASSETS	FIVE PER CENT. FUND	LEGAL TENDERS	SPECIE

Cashier.

Form of Average Weekly Return in Use by the Associated Banks of Boston.

the average, higher than those in New York, although recent changes in New York have caused certain banks to take unusual rank in this regard. In the former city

STATEMENT OF THE

ASSOCIATED BANKS OF BOSTON,

As returned to the Clearing House, for the week ending Saturday, December 9, 1899.

BALANCE.	CURRENT.	LOANS.	CORRESPOND.	TECHNICAL DEBITORS.	DRAWN ON OTHER BANKS.	DEBIT TO PEERAGE.	EXCHANGES FOR FOREIGN CURRENCY.	DEBIT TO OTHER BANKS.	RESERVE.
1 Massachusetts National	1,800,000	2,910,000	45,000	5,011,000	467,000	337,000	178,000	231,000	5,230
2 Old Boston National	2,000,000	2,765,000	45,000	5,083,000	425,000	492,000	137,000	65,000	25,000
3 Old State National	2,000,000	2,765,000	45,000	5,083,000	425,000	492,000	137,000	65,000	25,000
4 State Savings National	2,000,000	2,765,000	45,000	5,083,000	425,000	492,000	137,000	65,000	25,000
5 Old State National	2,000,000	2,765,000	45,000	5,083,000	425,000	492,000	137,000	65,000	25,000
6 Old State National	2,000,000	2,765,000	45,000	5,083,000	425,000	492,000	137,000	65,000	25,000
7 Old State National	2,000,000	2,765,000	45,000	5,083,000	425,000	492,000	137,000	65,000	25,000
8 Old State National	2,000,000	2,765,000	45,000	5,083,000	425,000	492,000	137,000	65,000	25,000
9 Old State National	2,000,000	2,765,000	45,000	5,083,000	425,000	492,000	137,000	65,000	25,000
10 Old State National	2,000,000	2,765,000	45,000	5,083,000	425,000	492,000	137,000	65,000	25,000
11 Old State National	2,000,000	2,765,000	45,000	5,083,000	425,000	492,000	137,000	65,000	25,000
12 Atlantic National	1,500,000	2,436,000	45,000	4,926,000	375,000	190,000	131,000	885,000	22,500
13 Atlantic National	1,500,000	2,436,000	45,000	4,926,000	375,000	190,000	131,000	885,000	22,500
14 Atlantic National	1,500,000	2,436,000	45,000	4,926,000	375,000	190,000	131,000	885,000	22,500
15 Second National	1,000,000	1,824,000	45,000	3,868,000	297,000	175,000	70,000	73,000	12,500
16 Second National	1,000,000	1,824,000	45,000	3,868,000	297,000	175,000	70,000	73,000	12,500
17 Second National	1,000,000	1,824,000	45,000	3,868,000	297,000	175,000	70,000	73,000	12,500
18 Second National	1,000,000	1,824,000	45,000	3,868,000	297,000	175,000	70,000	73,000	12,500
19 Shaw and Lumber Nat'l	1,000,000	7,682,000	135,000	7,142,000	3,699,000	1,388,000	541,000	1,215,000	6,750
20 National Savings	1,000,000	1,824,000	45,000	3,868,000	297,000	175,000	70,000	73,000	12,500
21 Nat'l Bk of Commerce	1,000,000	6,154,000	45,000	5,702,000	2,425,000	1,281,000	691,000	688,000	5,350
22 Nat'l Bk of Commerce	1,000,000	6,154,000	45,000	5,702,000	2,425,000	1,281,000	691,000	688,000	5,350
23 Nat'l Bk of Commerce	1,000,000	6,154,000	45,000	5,702,000	2,425,000	1,281,000	691,000	688,000	5,350
24 Nat'l Bk of Commerce	1,000,000	6,154,000	45,000	5,702,000	2,425,000	1,281,000	691,000	688,000	5,350
25 First National	1,000,000	7,425,000	135,000	6,540,000	3,171,000	974,000	698,000	1,430,000	6,750
26 First National	1,000,000	7,425,000	135,000	6,540,000	3,171,000	974,000	698,000	1,430,000	6,750
27 First National	1,000,000	7,425,000	135,000	6,540,000	3,171,000	974,000	698,000	1,430,000	6,750
28 First National	1,000,000	7,425,000	135,000	6,540,000	3,171,000	974,000	698,000	1,430,000	6,750
29 First National	1,000,000	7,425,000	135,000	6,540,000	3,171,000	974,000	698,000	1,430,000	6,750
30 First National	1,000,000	7,425,000	135,000	6,540,000	3,171,000	974,000	698,000	1,430,000	6,750
31 First National	1,000,000	7,425,000	135,000	6,540,000	3,171,000	974,000	698,000	1,430,000	6,750
32 First National	1,000,000	7,425,000	135,000	6,540,000	3,171,000	974,000	698,000	1,430,000	6,750
33 First National	1,000,000	7,425,000	135,000	6,540,000	3,171,000	974,000	698,000	1,430,000	6,750
34 First National	1,000,000	7,425,000	135,000	6,540,000	3,171,000	974,000	698,000	1,430,000	6,750
35 First National	1,000,000	7,425,000	135,000	6,540,000	3,171,000	974,000	698,000	1,430,000	6,750
36 First National	1,000,000	7,425,000	135,000	6,540,000	3,171,000	974,000	698,000	1,430,000	6,750
37 First National	1,000,000	7,425,000	135,000	6,540,000	3,171,000	974,000	698,000	1,430,000	6,750
38 First National	1,000,000	7,425,000	135,000	6,540,000	3,171,000	974,000	698,000	1,430,000	6,750
39 First National	1,000,000	7,425,000	135,000	6,540,000	3,171,000	974,000	698,000	1,430,000	6,750
40 First National	1,000,000	7,425,000	135,000	6,540,000	3,171,000	974,000	698,000	1,430,000	6,750
41 First National	1,000,000	7,425,000	135,000	6,540,000	3,171,000	974,000	698,000	1,430,000	6,750
42 First National	1,000,000	7,425,000	135,000	6,540,000	3,171,000	974,000	698,000	1,430,000	6,750
43 First National	1,000,000	7,425,000	135,000	6,540,000	3,171,000	974,000	698,000	1,430,000	6,750
44 First National	1,000,000	7,425,000	135,000	6,540,000	3,171,000	974,000	698,000	1,430,000	6,750
45 First National	1,000,000	7,425,000	135,000	6,540,000	3,171,000	974,000	698,000	1,430,000	6,750
46 First National	1,000,000	7,425,000	135,000	6,540,000	3,171,000	974,000	698,000	1,430,000	6,750
47 First National	1,000,000	7,425,000	135,000	6,540,000	3,171,000	974,000	698,000	1,430,000	6,750
48 First National	1,000,000	7,425,000	135,000	6,540,000	3,171,000	974,000	698,000	1,430,000	6,750
49 First National	1,000,000	7,425,000	135,000	6,540,000	3,171,000	974,000	698,000	1,430,000	6,750
50 First National	1,000,000	7,425,000	135,000	6,540,000	3,171,000	974,000	698,000	1,430,000	6,750
51 First National	1,000,000	7,425,000	135,000	6,540,000	3,171,000	974,000	698,000	1,430,000	6,750
52 First National	1,000,000	7,425,000	135,000	6,540,000	3,171,000	974,000	698,000	1,430,000	6,750
53 First National	1,000,000	7,425,000	135,000	6,540,000	3,171,000	974,000	698,000	1,430,000	6,750
54 First National	1,000,000	7,425,000	135,000	6,540,000	3,171,000	974,000	698,000	1,430,000	6,750
55 First National	1,000,000	7,425,000	135,000	6,540,000	3,171,000	974,000	698,000	1,430,000	6,750
56 First National	1,000,000	7,425,000	135,000	6,540,000	3,171,000	974,000	698,000	1,430,000	6,750
57 First National	1,000,000	7,425,000	135,000	6,540,000	3,171,000	974,000	698,000	1,430,000	6,750
58 First National	1,000,000	7,425,000	135,000	6,540,000	3,171,000	974,000	698,000	1,430,000	6,750
59 First National	1,000,000	7,425,000	135,000	6,540,000	3,171,000	974,000	698,000	1,430,000	6,750
60 First National	1,000,000	7,425,000	135,000	6,540,000	3,171,000	974,000	698,000	1,430,000	6,750
61 First National	1,000,000	7,425,000	135,000	6,540,000	3,171,000	974,000	698,000	1,430,000	6,750
62 First National	1,000,000	7,425,000	135,000	6,540,000	3,171,000	974,000	698,000	1,430,000	6,750
63 First National	1,000,000	7,425,000	135,000	6,540,000	3,171,000	974,000	698,000	1,430,000	6,750
64 First National	1,000,000	7,425,000	135,000	6,540,000	3,171,000	974,000	698,000	1,430,000	6,750
65 First National	1,000,000	7,425,000	135,000	6,540,000	3,171,000	974,000	698,000	1,430,000	6,750
66 First National	1,000,000	7,425,000	135,000	6,540,000	3,171,000	974,000	698,000	1,430,000	6,750
67 First National	1,000,000	7,425,000	135,000	6,540,000	3,171,000	974,000	698,000	1,430,000	6,750
68 First National	1,000,000	7,425,000	135,000	6,540,000	3,171,000	974,000	698,000	1,430,000	6,750
69 First National	1,000,000	7,425,000	135,000	6,540,000	3,171,000	974,000	698,000	1,430,000	6,750
70 First National	1,000,000	7,425,000	135,000	6,540,000	3,171,000	974,000	698,000	1,430,000	6,750
71 First National	1,000,000	7,425,000	135,000	6,540,000	3,171,000	974,000	698,000	1,430,000	6,750
72 First National	1,000,000	7,425,000	135,000	6,540,000	3,171,000	974,000	698,000	1,430,000	6,750
73 First National	1,000,000	7,425,000	135,000	6,540,000	3,171,000	974,000	698,000	1,430,000	6,750
74 First National	1,000,000	7,425,000	135,000	6,540,000	3,171,000	974,000	698,000	1,430,000	6,750
75 First National	1,000,000	7,425,000	135,000	6,540,000	3,171,000	974,000	698,000	1,430,000	6,750
76 First National	1,000,000	7,425,000	135,000	6,540,000	3,171,000	974,000	698,000	1,430,000	6,750
77 First National	1,000,000	7,425,000	135,000	6,540,000	3,171,000	974,000	698,000	1,430,000	6,750
78 First National	1,000,000	7,425,000	135,000	6,540,000	3,171,000	974,000	698,000	1,430,000	6,750
79 First National	1,000,000	7,425,000	135,000	6,540,000	3,171,000	974,000	698,000	1,430,000	6,750
80 First National	1,000,000	7,425,000	135,000	6,540,000	3,171,000	974,000	698,000	1,430,000	6,750
81 First National	1,000,000	7,425,000	135,000	6,540,000	3,171,000	974,000	698,000	1,430,000	6,750
82 First National	1,000,000	7,425,000	135,000	6,540,000	3,171,000	974,000	698,000	1,430,000	6,750
83 First National	1,000,000	7,425,000	135,000	6,540,000	3,171,000	974,000	698,000	1,430,000	6,750
84 First National	1,000,000	7,425,000	135,000	6,540,000	3,171,000	974,000	698,000	1,430,000	6,750
85 First National	1,000,000	7,425,000	135,000	6,540,000	3,171,000	974,000	698,000	1,430,000	6,750
86 First National	1,000,000	7,425,000	135,000	6,540,000	3,171,000	974,000	698,000	1,430,000	6,750
87 First National	1,000,000	7,425,000	135,000	6,540,000	3,171,000	974,000	698,000	1,430,000	6,750
88 First National	1,000,000	7,425,000	135,000	6,540,000	3,171,000	974,000	698,000	1,430,000	6,750
89 First National	1,000,000	7,425,000	135,000	6,540,000	3,171,000	974,000	698,000	1,430,000	6,750
90 First National	1,000,000	7,425,000	135,000	6,540,000	3,171,000	974,000	698,000	1,430,000	6,750
91 First National	1,000,000	7,425,000	135,000	6,540,000	3,171,000	974,000	698,000	1,430,000	6,750
92 First National	1,000,000	7,425,000	135,000	6,540,000	3,171,000	974,000	698,000	1,430,000	6,750
93 First National	1,000,000	7,425,000	135,000	6,540,000	3,171,000	974,000	698,000	1,430,000	6,750
94 First National	1,000,000	7,425,000	135,000	6,540,000	3,171,000	974,000	698,000	1,430,000	6,750
95 First National	1,000,000	7,425,000	135,000	6,540,000	3,171,000				

Form of Statement of the Associated Banks of Boston.

fourteen are capitalized at one million dollars; five at one million five hundred thousand dollars; one at one million six hundred thousand dollars; one at two million dol-

lars; and two at three million dollars, making a total of twenty-three, or nearly sixty per cent. of all, with a capital of one million dollars or more.

It will be noted, further, that there is a wide difference in the items included in the two statements. At Boston they are given under eleven heads, and at New York under seven. The only ones in the New York statement not included in the same at Boston are "Profits" and "Bills Payable." "Deposits," as reported at New York, is given in Boston under the two heads of "Individual Deposits" and "Due to Other Banks." "Bills Payable," which formerly appeared in the Boston statement, has been omitted for some two or three years past. The requirement of the items, "Due from Reserve Agents," "Exchanges for Clearing-house," "Due from Banks other than Reserve Agents," and "Five Per Cent. Fund," is not made by the New York Association.

In addition to the protection furnished by these statements, the clearing-house committee is empowered to examine any bank belonging to the association, and to require from said bank securities of such an amount and character as the committee may deem sufficient for the protection of the balances at the clearing-house, whenever it shall be in their opinion for the best interests of the association. Thus a member may be found to be weak and in danger of failure. If it is unable to pay its balance at the clearing-house, these securities will be appropriated for that purpose.

The expense of printing is borne equally by the members; and all other expenses are defrayed by an annual assessment of one hundred and twenty-five dollars upon

each member, and the remainder after that amount *pro rata* the average daily amount which each bank has sent to the clearing-house during the preceding year. Upon each non-member clearing through the association an assessment is made, in accordance with a constitutional provision, as follows: Five hundred dollars per annum on institutions whose capital is five hundred thousand dollars or less, and one thousand dollars per annum on all whose capital exceeds five hundred thousand dollars.

Admissions to membership may be made from time to time according to the following rule: "New members may be admitted to the association on the recommendation of the clearing-house committee, either by the written assent of three-fourths of all the members filed with the manager of the association, or by vote of three-fourths of all the members of the association at a meeting called for the purpose, such new member paying an admission fee of three hundred and fifty dollars, and assenting and subscribing to these articles." No requirement, therefore, is made regarding minimum capital.

For cause deemed sufficient, any member may be expelled from the association by a majority vote of all the associated banks. The constitution declares that before withdrawal a member must pay its due proportion of all expenses for the current year and give three months' notice in writing of such intention to the secretary.

In practice, however, if a member desiring to withdraw pays its expenses, in compliance with the above requirement, and there is no objection on the part of the association, it may withdraw in less than the specified time, as was true of the Hancock Bank, which withdrew

on thirty days' notice. The power of suspension is lodged with the clearing-house committee, but the vote of said committee must be unanimous in favor of such suspension and must forthwith call a meeting of the association to take the matter into consideration.

As shown before, the Clearing-house Association at New York was the only one in America when the bankers at Boston founded their clearing-house. In nearly all the details of method and administration, the rules established at New York were taken as a basis. As time went by, a few changes were found necessary, particularly in reference to administration, and hence it is unnecessary here to deal elaborately with this phase of the subject.

The usual meetings of the association are held once each year and at such other times as the clearing-house committee may designate on their own responsibility or when requested to do so by any five of the associated banks. Owing to the difficulty of obtaining a quorum, the required number was fixed at one-third instead of one-half of all the members, as in most associations.

At each annual meeting a chairman and a secretary are chosen by ballot, to hold office for one year or until their successors are chosen. At the same meeting a nominating committee of three persons is selected, whose duty it is to present to each bank belonging to the association a list of nominees for officers for the succeeding year, such list to be presented at least two weeks before the meeting next after their election. A standing committee of five bank presidents or other directors of banks, members of the association, to be called the "clearing-house com-

mittee," is elected annually, to serve for one year, and to their care most of the important interests of the association are intrusted, as at New York and elsewhere. They appoint the manager, whose salary is fixed by the association, and who is required to give bond in the sum of ten thousand dollars, such bonds to be approved by the clearing-house committee. The duties of the manager consist in supervising the exchanges between the banks, and the settlements of balances. He is in immediate control of all the business transactions of the clearing-house, discharging all the duties usually incumbent upon such officers.

In another chapter is given an account of the Foreign Department of the Boston Clearing-house, being the outgrowth of an experiment which was commenced in June, 1899.

CHAPTER XV

FOREIGN DEPARTMENT OF THE BOSTON CLEARING- HOUSE

Organization and History—Regulations—Two Clearing Hours
—Blanks and Forms—Fines—Book-keeping.

The Boston Clearing-house Association has had in operation for several months past a plan of making collections in the territory naturally tributary to that city, but outside of the city itself. It is known as the "Foreign Department of the Clearing-house Association," and is conducted independently of the regular clearings of that organization.

The question of collecting out-of-the-city checks had been discussed by members of the Boston Clearing-house Association for a long time, and finally, early in the year 1899, a special committee was appointed, to which the whole subject of collecting checks throughout the district known as New England was referred. This committee, after careful deliberation, reported that in its judgment it was advisable and practicable for the clearing-house to undertake the collection of such checks and to distribute the proceeds thereof. The committee advised beginning with the State of Massachusetts, and adding the other New England States one by one, as soon as proper provision for the same could be made.

The report of the committee further recommended that

the work be done at the clearing-house by the manager, under the supervision of the clearing-house committee. It nominated the following routine: Those banks which choose to avail themselves of this method of collecting their checks shall deposit them at some fixed hour, say at 1 o'clock, of each day. The checks are then to be assorted and the checks on each out-of-town bank made up in a separate package. To this package a slip shall be attached, bearing a list of the checks, and, further, a complete list is to accompany the checks, showing the total of the amount on each bank respectively. The clearing-house employees assigned to that duty shall send the checks forward to the banks on which they are drawn, so far as such banks will undertake to remit for checks on themselves by drafts on their Boston or New York correspondents. It was further suggested that in some cases checks on all the banks in one town or city might be collected through a single bank. The checks were to be sent by mail or by express, as found desirable.

The report further set forth that the manager of the clearing-house should have a desk and number assigned to him, and should take part in the morning settlements, collecting through such settlements the various checks on Boston banks received by him, and paying in the same way to the Boston banks their respective proportions of the checks forwarded two days previously, as might be arranged. Each day's settlements by the manager, the report continued, should represent the amount of foreign checks received on a certain previous day, and the debits and credits should be equal in amount. In case, however, remittances should be delayed so that the manager was

without sufficient funds to meet the charges against him, he would charge against the several banks, through the morning settlements, their respective amounts of such delayed remittances, or settle with the banks in their respective proportions of such delayed remittances in the payment of balances by the debtor banks and the distribution of balances to the creditor banks. The report was accompanied by various forms which were subsequently adopted for use.

This report was approved, and at a meeting held December 18, 1899, the following amendment to the constitution, which had been recommended by the clearing-house committee, was adopted:

“The Clearing-house Association shall have the power to establish rules and regulations regarding collections by members of the association, or banks, or trust companies, or others clearing through such members, and the rates to be charged for such collections, and also to provide for the enforcement of the same. The association may from time to time make any additions to or changes in such rules and regulations as it deems judicious. Any rule or regulation upon the subject can be established only by a vote of the majority of all the members of the association, and when once established it shall not be altered until it has been in force at least three months, and then only by a majority vote of all the members of the association.”

Under this provision rules and regulations were adopted at a meeting held December 27th, as follows:

“Section I. These rules and regulations shall apply to all members of the association, and to all banks or trust companies or others clearing through such members.

The parties to which the same so apply are hereinafter described as collecting banks.

“Section 2. For all checks and drafts from whomsoever received, drawn upon any New England bank or trust company or banking house or other banking institution, which does not pay checks and drafts drawn upon itself and sent through the Boston Clearing-house by remitting therefor on receipt thereof promptly at par, checks upon some member of the Boston or New York Clearing-house, or upon a banking institution clearing through some such member, the collecting banks shall charge not less than one-tenth of one per cent. of the amount of such checks and drafts respectively.

“Section 3. In case the charge upon any check or draft at the rate above specified does not equal ten cents, the collecting bank shall charge not less than that sum; but all checks and drafts received from any one depositor or correspondent on the same day, and payable by the same institution, may be added together and treated as one item for the purpose of fixing the amount to be charged.

“Section 4. The charges herein specified are in all cases to be collected at the time of deposit or not later than the tenth day of the following calendar month. No collecting bank shall directly or indirectly allow any abatement, rebate, or return, for or on account of such charges, or make in any form any compensation therefor.

“Section 5. In case any member of the association shall learn that these rules and regulations have been violated by any of the collecting banks, it shall imme-

diately report the facts to the chairman of the clearing-house committee, or, in his absence, to the manager of the clearing-house. Upon receiving information from any source that there has been a violation of the same, said chairman, or, in his absence, said manager shall call a meeting of the committee. The committee shall investigate the facts and determine whether a formal hearing is necessary. In case the committee so concludes, it shall instruct the manager to formulate charges and present them to the committee. A copy of the charges, together with written notice of the time and place fixed for hearing regarding the same, shall be served upon the collecting bank charged with such violation, which shall have the right at any hearing to introduce such relevant evidence and submit such argument as it may desire. The committee shall hear whatever relevant evidence may be offered by any person and whatever arguments may be submitted, and shall determine whether the charges are sustained. In case it reaches the conclusion that they are, the committee shall call a special meeting of the association and report thereto the facts with its conclusions. If the report of the committee is approved by the association, the collecting bank charged with such violation shall pay to the association the sum of one thousand dollars; and in case of a second violation of these rules and regulations, any collecting bank may also, in the discretion of the association, be excluded from using its privileges directly or indirectly, and, if it is a member, expelled from the association.

“Section 6. Every collecting bank, as defined in Section 1 of these rules and regulations, shall forthwith

adopt, by its board of directors, a resolution in the following terms, and file a certified copy thereof with the association as evidence as therein specified:

“ *Whereas*, This corporation has acquired the privilege of clearing and making exchange of its checks through the Boston Clearing-house Association, and is subject to its rules and regulations, now, therefore,

“ *Be it Resolved*, That this corporation hereby in all respects assents to and agrees to be bound by and to comply with all rules and regulations regarding collections outside of the city of Boston which may be established pursuant to the constitution of said association, and that the president of this corporation is hereby instructed to file a certified copy of this resolution with the Clearing-house Association as evidence of such assent and agreement on the part of this corporation.”

It was provided that the above should go into effect on January 1, 1900. In putting the plan into operation, the manager of the clearing-house prepared two lists of banks, one comprising those banks the location of which, with respect to the closing of mails, etc., required that checks should be deposited with the manager not later than 1 o'clock, and the other permitting the deposit of checks not later than 3 o'clock of each business day, in order to be got into the mail of the same day. This resulted in what is in effect two clearing hours for the foreign department. Saturdays are exceptions to the general rule, and with respect to that day it is provided that all checks shall be deposited not later than 1 o'clock.

The regulations for the collection of out-of-town

checks, formulated by the manager of the clearing-house, include the following :

Every check must be stamped by the bank depositing it, according to the following form :

Received payment through the Boston Clearing-house. Prior indorsements guaranteed. Bank of Boston by..... Cashier.
--

The checks on each bank must be placed in a separate package, with a slip attached containing a list of the checks, the name of the bank on which they are drawn, and a footing; and the check ticket attached to the slip also must be filled out and the name of the bank and the footing of the checks placed thereon. Whenever there is but one check on a bank it will still be necessary to have the clearing-house slip attached, with the name of the bank and the amount of the check placed upon both slip and check ticket. These packages must be assorted alphabetically, according to the names of the respective towns in which the banks are situated, and must be delivered by the messengers of the banks at the proper desks for the respective letters.

By 1 o'clock P.M. on Saturdays, and on other days before half-past 3 o'clock P.M., each bank must send to the clearing-house, by its messenger, a ticket showing the total amount of checks left for collection that day, and re-

FORM A.

No. 100.

Boston Clearing-house.

FOREIGN DEPARTMENT.

From Boylston National Bank,

No. 32,

New England Checks left for collection.

Date,

Amount, \$

Exchange Ticket, Foreign Department, Boston Clearing-house.

ceive a charge ticket showing the date on which it is to be charged into the regular morning settlements against the manager. The manager will be known as No. 100, and will join in the settlements on the same footing as any one of the banks.

Banks are requested to see that all indorsements are in order. No examination of packages or checks will be made by the officers or employees of the clearing-house.

If the remittance from any Massachusetts bank shall not have been received on the morning on which the charge tickets are to be charged against the manager of the clearing-house, the manager will charge against each Boston bank its proportionate amount of such delayed remittance, as well as the amount of any protested or unpaid checks received from any Boston bank.

New York exchange and currency received in payment of collections will be charged at par against the several Boston banks from time to time, under the direction of the clearing-house committee, in proportion to the business of each bank, and the amounts of any such charges will be reported to the president, cashier, or other representative of each bank at the 10 o'clock clearing.

A fine of two dollars will be collected from any bank which is late at either the 1 o'clock or the 3 o'clock settlement, and its checks may be refused by the manager at his discretion if presented more than ten minutes late. Any bank not sending to the manager of the clearing-house by 1 o'clock on Saturdays, and on other days before half-past 3 o'clock, a ticket showing the total amount of out-of-town checks it has deposited at the clearing-

FOREIGN SLIP

BANK

LOCATION

FROM

DATE

--	--	--	--	--	--

FOREIGN CHECK TICKET

FROM

DATE

BANK

LOCATION

\$ | |

DO NOT DETACH

Form of Foreign Slip and Foreign Check Ticket, Boston Clearing-house.

house that day, will be fined four dollars. A fine of four dollars also will be imposed for any mistake in the amount of such deposit so reported. An incomplete or incorrectly filled slip or check ticket is fined one dollar.

The forms used by the foreign department of the Boston Clearing-house—in fact, the actual stationery—have been largely borrowed from the forms employed in the regular clearings. Minor adaptations have been made in certain forms, and, in cases where absolutely necessary, new forms have been designed and printed. The deposit ticket, a sample of which is shown among the illustrations, contains little more than the name of the bank making the deposit, the date, and the amount of checks left for collection. The receipt corresponding to this, which is also reproduced among the illustrations, is likewise very simple in its details. There is the name of the bank, the reported amount of the checks, the date at which the amount is payable, if the checks prove good, and the signature of the manager.

The detailed statements of checks deposited for collection, known as foreign slips, a sample of one of which is shown herewith, are of different colors of paper, thereby readily distinguishing the items of one State from those of another. Rhode Island, for example, is straw color, Connecticut blue, etc. This slip gives the name and the location of the bank on which the checks are drawn, and the name of the bank depositing them for collection. There is a coupon at the bottom which recounts the name of the bank making the deposit, the date, the name of the bank on which the checks are drawn, its location, and the amount.

FORM B.

No. 100.

Boston Clearing-house.

FOREIGN DEPARTMENT.

Received from National Shawmut Bank, No. 20,

New England checks said to amount to . . . \$

Payable if good on

or when a remittance shall have been received.

Manager.

Form of Receipt, Foreign Department, Boston Clearing-house.

The letter-form used in transmitting the checks for collection to the several banks on which they are drawn, is presented among the illustrations. In the blank space below the signature of the manager the footings of the several slips prepared by the banks are inserted. As this account is made up, the stubs from the foreign slip tickets (see previous illustration), being that part designated as the foreign check ticket, is detached and is retained by the clearing-house manager as evidence of the amount that is inserted in the letter. The coupon at the bottom of the letter itself is likewise retained for book-keeping purposes and is the basis for charging the account with the bank. The amount represented by it is the aggregate of all of the stubs of the slips enclosed with the letter.

For the purpose of making up the accounts—that is, filling out the letters of transmission and otherwise completing the work—a number of Burroughs's arithmometers are employed. In other words, the machine that is largely in use among banks throughout the United States for listing vouchers returned, etc., is used in making up the records of remittances. Enough of these machines are used, and so skilful are the employees in their manipulation of them, that in a surprisingly short period of time after the exchanges have been completed, the lists for the individual banks are made up and the matter got into the mails or the hands of the express companies, as the case may be.

The settling clerk's statement, also shown in the illustrations, has four columns. The first records the receipts from correspondents, the second column contains the

C. A. RUGGLES, Manager.

BOSTON CLEARING-HOUSE.

Boston,.....

To the Cashier of the

.....*National Bank of*.....

Dear Sir :

Enclosed I beg to hand you checks on your bank as listed below, for the amount of which please remit me by return mail a draft on your Boston correspondent, payable to the order of the Manager of the Boston Clearing-house.

At the same time, if for any reason a check remains unpaid, please advise me of the amount of such check and the name of the Boston Bank whose indorsement appears thereon.

Yours truly, *C. A. RUGGLES, Manager*

.....*National Bank*.....

Date,.....*Amount, \$*.....

Form of Letter of Transmission to Correspondents, Foreign Department,
Boston Clearing-house.

amounts from members receipted for, the third records the adjustments, borrowings, etc., and the fourth the payments. This sheet in use is of the conventional size, with the names of the banks printed down the left-hand margin and numbered, and corresponding numbers placed at the ends of the lines on the right-hand margin.

The book-keeping employed in the foreign department of the Boston Clearing-house is very simple in character. The outward posting mediums, as already explained, are the stubs of the letters. The inward posting mediums are the letters from the out-of-town banks enclosing remittance checks. Of necessity, an account is opened with each bank to which collections are forwarded. At the outset it is charged with the amounts sent to it for collection, and in turn, as remittances are received, it is credited.

With respect to the inward posting mediums, it sometimes transpires that the banks making returns send back the original letter enclosing collections. This, of course, answers every purpose in the clearing-house.

The ledger at present in use has the names of the various out-of-town banks printed down the left-hand margins of the page, there being a line to each. There is a debit and a credit column for each day occupying the space to the right of the names. The ledger is similar in form to certain varieties of deposit ledgers in use among banks, and is of a variety that is sometimes described as a progressive ledger. As already mentioned, the banks are debited with the items sent out and credited with the remittances. The debits, of course, precede the credits by one, two, three or four days, according to the location

of the banks. Wherever the remittances come in promptly, the columns, taking the banks collectively on a page, balance. Wherever one or more remittances are delayed, the columns, of course, are out of balance, thereby directing attention instantly to the delinquent.

CHAPTER XVI

THE CHICAGO CLEARING-HOUSE

Date and History of Formation—Methods of Exchange—Preliminary Exchanges among Members—Kinds of Money Employed in Settling Balances—Trading Balances—Non-member Banks that Clear—Statements of Condition—Expenses and Fines—Admissions and Expulsions—Volume of Clearings—Administration.

The practical utility of clearing-houses had been attested in the United States by more than ten years of successful operation, when Chicago, in April, 1865, formed an association, on lines substantially identical with those of the leading cities of the East. Although the Chicago Clearing-house performs essentially the same functions as do the clearing-houses of other important centres, yet, in the course of time, circumstances have wrought many changes in its constitution, which have tended to give it a character peculiarly its own. The membership (now nineteen in number) at the date of the organization embraced nearly all the banks and bankers in the city. Although at one time the list went up to thirty, there are at the present time only nineteen members, the vicissitudes of the banking business in Chicago in the interval accounting for the increase and subsequent decrease. The membership, as at present made up, embraces thirteen national banks, four trust

companies, one State bank, and the Chicago branch of the Bank of Montreal.

The requirements for membership at the outset were not so rigid as they are at present. No minimum limit was placed upon the capital necessary for membership. As a fact, many of the members had but small capital and limited experience. Further, at that stage of the development of the clearing-system, experience did not demand what has since been found to be very essential.

The Chicago Clearing-house progressed with uniform success from the date of its organization in 1865 until 1871, when all the interests of the city sustained a severe shock by the great fire which swept over the city. In that fire some portion of the records of the clearing-house was lost. Soon after the fire the panic of 1873 occurred, and in that crisis a number of the members fell out of line. Still other vicissitudes, some of which were peculiar to the organization itself, served still further to retard its growth and progress. In 1882 the Chicago Clearing-house was formally incorporated under the laws of the State.

The failure of members in this organization has never given occasion for litigation. Those members who have been so unfortunate as to fail have seldom attempted to clear on the day of their failure. In most cases they have given notice of their condition in ample time for their exchange to be withdrawn. When, however, a failing bank has attempted to make its regular clearings and has not been able to pay the balance against it at the clearing-house, all the exchanges presented by and against it have been returned and a new settlement made, the same as if

it had not participated in the exchanges of the day. In this way those who had presented checks against the failing member were enabled to return them to their customers, thereby intrenching themselves against loss. No formal provision was made for such action at the outset, but as time passed on, this course was found to be the best means by which to avoid serious complications. Accordingly, the rule has been embodied in the constitution. It is similar in its provisions to that existing in the constitutions of nearly all the clearing-house associations of the country.

The history of this organization shows comparatively few failures. The membership, however, has been repeatedly reduced by consolidations.

We now come to an analysis of the methods of exchange pursued by this body, and, as we proceed, we shall find that in these details, Chicago, quite as much as any of the larger cities of the East, presents certain striking features of its own, which are not to be found in the others.

The exchanges in Chicago are made on each business day, at 11 o'clock, except Saturday, when they are made at 10 o'clock. For some time past a large rented room on Monroe Street, being in the basement of the building of the First National Bank, has been occupied. New quarters, however, at the date that this account is written, are in process of construction and are to be occupied in May, 1900.

The clearing-room is fitted with two rows of desks, extending lengthwise of the space. One of these is assigned to each of the member-banks and is desig-

nated by a number. The manager sits at a desk at the end of the room, where he commands a full view of the clearing operations. Each bank sends from two to three representatives to the clearing-house, with its claims separately made out against each of the other members. One of the representatives of each bank stations himself immediately opposite the desk bearing the number of his bank, first having deposited with the manager a ticket which states the amount of the exchanges that his bank has sent to the clearing-house. On receipt of the ticket, the manager immediately enters in the credit column of the sheet before him the amount stated thereon. This sheet is ruled in four columns, for the entry of the credit and debit exchanges and for showing the credit and debit balances. Standing in front of each of the representatives of the banks above mentioned is the messenger from the same bank, with a bundle of exchanges ready to be delivered at the desk of each of the other banks.

Precisely at 11 o'clock, or as soon as all are present, a gong is struck, and thereupon the messengers begin the delivery of the checks, passing around the double row of desks and depositing with the clerk of each of the banks the exchanges drawn upon it. While delivering the checks the messenger passes from clerk to clerk a sheet containing the amounts to the debit of each, and upon this the several clerks receipt for the checks they receive.

When the packages have all been delivered and receipted for, they are taken to the several banks by messengers, the sheets being passed around by other messengers, who, with the clerks, remain at the clear-

ing-house. As the sheets are thus being passed along, each clerk enters the amount charged to his bank on the debit side of the page, in a book which he has brought with him for that purpose.

These books are ruled in four columns, for the entry of the amount brought, the amount received, the credit balance, and the debit balance, respectively. One column is filled out before the messenger comes to the clearing-house, and that is the amount brought, or, as described above, the credit column.

When the debit entries have all been made from the sheets, the balance is struck by taking the difference between the total of the amount brought and the amounts received. Each clerk now makes out, as quickly as possible, a ticket showing the total amount brought, the amount received, and the balance, and hands the same to the manager.

It is clear in each case that if the amount brought exceeds the amount received, the balance will be in his favor and *vice versa*. The manager, upon receiving these tickets, immediately enters the amounts in the debit column of his sheet, and the balances shown in the credit column in the credit balance column, or the debit balance column, as the case may be. It now remains to foot up the columns. If the amounts brought and the amounts received agree, and if the debit and credit balances likewise agree, the manager announces that the work is correct, and thereupon the several clerks immediately return to their banks. If, on the other hand, these amounts do not agree, the discrepancy is announced by the manager, whereupon the clerks proceed to search for the

error. A search of this kind requires skill and accuracy at figures, for it is frequently necessary to foot up long columns of figures and even to call back the entries between banks, in order to locate the error. If the mistake is not soon found, the anxiety becomes apparent, for a fine of two dollars is imposed upon the unfortunate member whose error has caused the trouble, if the mistake is not located in twenty minutes.

The custom of exchanging checks and other items among themselves, before the hour for exchanging at the clearing-house, has grown up among the members of this organization. For example, members A, B, C, and D may be located in close proximity. Therefore, for convenience in making early entries of items, they exchange among themselves the checks which they hold against each other. The settlement of balances arising in this way is made at the same time and in the same manner as if the exchanges had taken place at the clearing-house.

All banks which find themselves debtors in the exchanges are allowed from 12 to 12.30 o'clock to settle their balances with the manager at the clearing-house. The creditor banks receive their balances between 12.30 and 12.45 o'clock. On Saturdays these transactions are one hour earlier.

The method of settlement in Chicago differs materially from that which prevails in New York, Boston, and Philadelphia, and, indeed, from that of all other important clearing-houses in this country. Less than twenty-five per cent. of the balances are settled with currency and gold coin. The latter is used only to a very limited extent.

The following is the substance of the By-law of this organization relating to kinds of money to be used in settlement of balances, as amended in October, 1899:

All payments to the Chicago Clearing-house, by the different members of said association, shall be made in United States gold coin, or United States treasury certificates therefor payable in Chicago, in United States legal tender notes, or treasury notes, or United States treasury certificates therefor payable in Chicago, in United States silver certificates or national bank-notes.

All gold paid to the clearing-house in settlement of balances shall be put up in strong canvas bags, each containing five thousand dollars; all coins in any one bag to be full weight and of one denomination; the bags to be securely fastened by wire, with a lead seal bearing the name and clearing-house number of the member putting up such package, in such manner that in the opinion of the manager of the clearing-house the fastenings cannot be sufficiently released to allow of the removal of any of the contents without mutilating the seal. Every such package shall have a suitable label or tag attached, bearing the name of the sealing member, the amount of the contents, denomination, date of sealing, and signature of the person or persons duly authorized to date or seal the same.

All currency paid to the clearing-house in settlement of balances, except notes of the denomination of fifty dollars or larger, shall be put up in packages, each containing five thousand dollars or ten thousand dollars. All the notes included in any package shall be of one denomination, enclosed in bands in multiples of five hundred

dollars each. The denomination and amount shall be plainly marked on the cover of the package, with the name of the member of the association putting up the same, date of sealing, and signature of the person or persons duly authorized to date or seal the same. Every such package shall be enclosed between cardboards of the full width and length of the notes, placed on the upper and lower sides thereof, and shall be tied with twine and securely sealed with wax seals bearing the imprint of the member putting up the same. All notes included in such package shall be in good condition and fit for circulation and of the denomination for either five dollars, ten dollars, or twenty dollars.

For each and every violation of any of the regulations contained in the paragraphs relating to gold and currency above, the manager shall impose a fine of five dollars on the offending member.

The value of every package of gold or currency put up in accordance with the provisions of this By-law shall be guaranteed by the member whose seal it bears, until and including the fifteenth day of March, June, September, or December, whichever month shall come next after its authorized date, or re-date, and in case of any shortage, either in count or weight, the member putting up the same shall on demand immediately make good any such shortage to the member breaking the seal. This guarantee shall not extend to any package which shall have passed into the hands of any person or corporation not a member of the association.

Chicago has developed a peculiar custom of trading balances, and so extensive has this practice become that

REPORT TO MANAGER.

C. H. BANK No......

TRADES WHOLE BALANCE.

PAYS IN \$.....

COLLECTS \$.....

.....
REPORT TO BANK.

C. H. BANK No......

DR. BAL. \$.....

CR. " \$.....

perhaps seventy-five per cent. of the balances are disposed of in this way. It began many years ago, and originated in a desire to avoid the counting and carrying of so much money through the streets as would be necessary to settle the balances. The trading is done mainly by the clerks at the clearing-house. As soon as they strike their balance, and while the manager is entering upon his sheet the amounts and balances, and footing the columns, the clerks representing the creditor banks engage in loaning balances to the representatives of the debtor banks. The clerks are not given full liberty of action, but are very generally instructed by their banks regarding the amounts to be traded and the members with which trades may be made. Any member may trade its whole balance, or any part thereof. It may trade its balance to a single member, or to two or more members.

A notable example of this kind occurred in August, 1897, when the North Western National Bank traded its balance to fifteen different banks. The credit balance of this bank was two million six hundred and twenty-two thousand dollars, which amount was more than ninety-eight per cent. of the credit balance of all the banks, there being on that day only two other creditor banks out of the whole list of twenty-two members.

Some banks do not find it to their advantage to trade, and hence adjust their balances by cash settlements. At the conclusion of the trades, the representatives of the banks make out and hand to the manager reports of the tradings, as shown by the accompanying form. This form, it will be noticed, is provided with a coupon which embodies a report to the bank.

BANK NO.....

Chicago,.....189.....

W. D. C. STREET, Manager.

CHICAGO CLEARING HOUSE,

Pay.....or order, \$.....

Dollars,

and deduct from balance due us this day.

CASHIER.

Form of Order Used in Transferring Balances That Have Been Loaned.

The formal order by which the transfer is made is shown in the second of the accompanying forms. Manifestly, it would be impossible for the manager of the clearing-house to ascertain from the reports just illustrated whether a given bank had traded to a single bank or to a number of banks, and also with what bank or banks the trade had been negotiated. This fact is determined by an order or orders upon the manager of the clearing-house from the cashier of each creditor bank which has negotiated a trade, to pay to a specified bank or banks certain portions of its balances each, such sum to be deducted from the balances due from the exchange of that day. For example, B, a creditor bank, gives an order on the manager of the clearing-house, signed by the cashier, to pay C, D, or E, or any one of them, a part of its balance, or the whole of the sum which it may have traded to them at the clearing-house. The manager deducts such an amount from the debit balances due the clearing-house by C, D, and E, respectively. Hence they are required to pay to the clearing-house only the difference between such orders and their debit balances.

The manager also obtains another kind of receipt—namely, the orders to the clearing-house manager to pay to the authorized messengers the balances in cash due from the exchanges of that day. The form of this order is also shown in fac-simile herewith.

The settlements of the amounts of all orders are made between the banks concerned, the debtor banks giving to the creditor banks cashiers' checks, currency, or exchange for the amount of the trade, such checks always going through the exchanges on the following day. Sup-

C. H. Bank No.

Chicago.

189

W. D. C. STREET, Manager

CHICAGO CLEARING HOUSE.

Our messenger

when accompanied by

is authorized to receive, \$

DOLLARS

Being the Balance due us from the Associated Banks in to day's Exchanges,
Orders (if any) given to other banks this day will be received in part payment.

100

Cashier.

Form of Order on Clearing-house Manager for Balance Due.

pose, for example, B's debtor balance is seventy-five thousand dollars to-day, and that this amount is settled by a trade with some creditor bank. B gives to the creditor bank a cashier's check for seventy-five thousand dollars, which the latter will send through the exchanges to-morrow against B. Suppose also that in addition to the seventy-five thousand dollars, B's debit balance goes on increasing each day. It is evident that in that case B must cease to postpone an actual settlement by trading and instead make a cash payment at the clearing-house.

This practice, it will be perceived, differs materially from that in vogue in Boston with respect to borrowing and loaning balances. In one case trades are made by the clerks; in the other they are restricted to one or another of the principal officials of the bank, who appears at the clearing-house simply for that purpose. In the one case interest is required; in the other it is not. In the one case the checks on the debtor members go through the exchanges on the following day; in the other they do not so pass through at once, but may be held over indefinitely. In the one case the trading is solely an element of mutual convenience to members; in the other case it is an element of gain to the creditor bank.

Besides the regular members, there are nearly one hundred non-member banks clearing through the Chicago Clearing-house. In other words, there is an average of more than five to each member. In no other city in the country is the ratio in this regard so high. Most of those clearing in this way are private banks and trust companies. Since Illinois heads the list of States in number of institutions in this class, it is not surprising that the

number in Chicago is so large, or that it should represent such a large fraction of the clearing-house business. Some comparisons will be interesting: In Boston the members and non-members clearing through the members are almost equal. In Philadelphia no members are allowed to clear for non-members. In New York the list of members and non-members is nearly equal, there being a few more non-members than members. At Chicago no compensation is required for clearing outside institutions, except that in some cases a certain deposit is required by a member from the non-member for which it clears.

Each member is supposed to know the condition of the non-members clearing through it, and accordingly is held responsible for the checks of the non-members in the same manner as for its own checks. No statements are required for non-members, either by the clearing-house, or by the members through whom they clear; nor is there anything in the By-laws of the clearing-house that authorizes the examination of non-members.

Members of the association are required to furnish the manager statements of their condition, in accordance with the following rule: "Each member of this association shall furnish the manager, as often as five times yearly, a sworn statement of its condition, at such times as may be designated by the Comptroller of the Currency for statements from national banks; and at such other times and on such other dates as the clearing-house committee may require. Said statements shall be made in form and manner prescribed for the above-mentioned statements from national banks. Said statements shall be open to the in-

spection of the members of this association, but otherwise shall be held strictly confidential." Many of the Chicago banks voluntarily publish their statements, though no requirement of this kind is made by the Clearing-house Association. The daily clearings are the only regularly published statistics of the association.

No items with restricted indorsements are allowed to go through the exchanges, the rule requiring that all indorsements on checks and other paper for deposit shall be in blank, or simply, "Pay to —— or order," without qualification.

The expenses of the Chicago Clearing-house are met by an annual assessment of two hundred dollars upon each of the members, and the payment of the balance after that amount, according to the daily average of exchanges sent to the clearing-house for the preceding three months. The fines upon the members, amounting to two hundred or three hundred dollars annually, are devoted to the payment of expenses. The total annual appropriation for this purpose has in the past averaged in the neighborhood of eight thousand dollars, but the increase in expenses incident to the new quarters, which, as before remarked, the Chicago Clearing-house is just about to occupy, will demand a considerably larger appropriation.

The fines enforced by the Chicago Clearing-house are unusually heavy: For failure to be represented punctually at the morning exchanges for the first five minutes or part thereof the fine is three dollars; for the second five minutes or part thereof, ten dollars; and for tardiness exceeding ten minutes, twenty-five dollars. So prompt,

however, have been the members that the twenty-five-dollar fine has never been imposed, and in only a few instances has the ten-dollar fine been assessed.

Banks desiring to become members make a formal application to the clearing-house committee. The latter thoroughly examines their condition and standing, and makes a report to the association. The applicant then may be admitted on receiving the affirmative vote of three-fourths of the members of the association. The members are required to pay an admission fee of one thousand dollars, and to assent to the Articles of Incorporation and By-laws, thus being put upon the same footing as the original members. The By-laws provide that no new members shall be admitted except banks having their principal office located in the city of Chicago, organized under the laws of the United States or under the laws of the State of Illinois, and having done business therein, with their subscribed capital stock fully paid in, for a period of at least six months prior to the application for membership. It is further provided that no new member shall be admitted except banks having a paid-in capital of at least five hundred thousand dollars, which capital shall be kept intact during the membership. The Assistant Treasurer of the United States, located in Chicago, may, upon application, be admitted to membership, without the payment of an admission fee, but shall have no voice in the management. Any member may withdraw at pleasure, first paying its due proportion of all expenses incurred and signifying its intention to the clearing-house committee to withdraw.

In many clearing-house associations it is easier to expel members than to admit them, the vote being a majority for expulsion and three-fourths for admission. At Chicago, however, the conditions of admission and expulsion are the same, the requirements in each case being a vote of three-fourths of all the members.

In many of the most important cities of the country, clearing-house loan certificates have been issued from time to time, in seasons of great pressure—for example, as in the panics of 1873 and 1893—thus giving elasticity to the currency in times of greatest need and affording relief to the banks from the terrific strain upon them. In Chicago, however, such action has never been taken, although in 1893 the subject was under serious consideration and a vote of fifteen to nine was cast in favor of an issue. At this time extensive loans were made to the members who were most in need, the loans amounting to one million seven hundred and forty-five thousand dollars. This represents the largest amount ever loaned in Chicago in this manner, and it was all repaid within sixty days from date. On other occasions, banks that have been temporarily embarrassed, and which upon the careful examination by the clearing-house committee were found to be solvent and in possession of collateral sufficient to secure their loans, have been promptly assisted by their fellow-members in the clearing-house, each furnishing aid in proportion to its capital and deposits.

The Chicago Clearing-house has experienced various changes in the number of its members. The membership at one time was as high as thirty, and, as already stated, is at present only nineteen; yet the record of clearings

shows an almost uninterrupted increase from the beginning of the organization. A table prepared by the association shows the total clearings for each year from the organization to date, and is of peculiar interest, since it shows the marvellous growth of the business of the city, which in a very short period has attained the third rank among American financial centres, being surpassed only by New York and Boston.

No losses have ever occurred from the enormous transactions which have been repeated from day to day during the thirty-two years of the history of the association. These exchanges are conducted by two men—the manager and one assistant—and their record is embodied in four books. One contains simply the copy of the manager's proof-sheet, showing the debit and credit exchanges and balances of each bank, and the total of the same for all the banks. Another book, the items in which are posted from the first, contains a record of the daily debits, credits, and balances of each bank, kept apart from a similar record of each of the other banks. The third book contains a transcript of the total clearings and balances by days, weeks, and months. The fourth book is a record of the amount and kind of money paid by and to the several banks in settlement of balances. From these records the total transactions of each bank with the clearing-house for a given period may be readily ascertained. The annual transactions beginning with 1865 have been computed and posted in this manner.

In the rules of the Chicago Clearing-house due provision is made for the administration of its affairs in all details. The several powers are lodged in a president,

vice-president, manager, secretary, treasurer, and clearing-house committee. In addition, five directors are charged with the responsibility of attending to all matters pertaining to the corporate existence of the association, the Chicago Clearing-house being the only incorporated clearing-house at present existing in America.

The annual meeting is held on the third Tuesday in January, when the officers, directors, clearing-house committee, and manager of the clearing-house are elected by ballot. A majority vote of a quorum determines the result, a quorum being a majority of all the associated banks. At this meeting each member of the association must be represented by one or more duly authorized persons, and is entitled to one vote. Besides the general meetings, the president is required to call special meetings whenever he may deem it necessary, or whenever he is so requested by five members of the association, or by the clearing-house committee.

The president and vice-president are constituted the officers of the association and must be elected from among the directors. Upon the president, and in his absence upon the vice-president, devolves the duty of presiding at all meetings of the association and of calling the special meetings under the conditions named above. The manager has immediate charge of all the business of the clearing-house, subject to the control of the committee. He supervises and directs the work of the clerks and messengers while in the clearing-house, and, in addition, is *ex-officio* secretary and treasurer of the association. As treasurer, he has charge of the funds belonging to the association and disburses the same on the order of the clear-

ing-house committee. He is required to keep a correct record of all the money received and disbursed on account of the association, and to submit a detailed statement of the same at the annual meeting and whenever requested by the clearing-house committee. As secretary, he keeps the minutes of the proceedings of the association in a book provided for that purpose. His salary is fixed by the association and he is required to give a bond with sureties in a sum of not less than twenty thousand dollars, to be approved by the clearing-house committee. He is required to report to the committee all violations of the Charter or By-laws that may come to his notice. He holds office until the next annual election, but is liable to suspension by the clearing-house committee or expulsion by the association.

The clearing-house committee consists of five members and is elected by majority vote by ballot at the annual meeting of the association. Upon this committee devolves the chief responsibility for the successful conduct of the affairs of the association. It is its duty when occasion demands to procure a suitable room or rooms for the clearing-house, with all necessary articles for the convenient transaction of its business. The committee appoints the necessary clerks, establishes rules to be observed at the clearing-house in cases not provided for in the constitution, but subject to the approval of the association, and has general supervision of clearing-house affairs.

The clearing-house committee determines the assessment of each member for its quota of expenses, and orders the payment of bills by drawing on the treasurer for the

same. The committee hears and determines all disputes arising between members of the association, when submitted to it by the parties in dispute, thus performing a function sometimes discharged by a separate committee known as the "arbitration committee." A record of each case of dispute is kept in a book provided for that purpose, which book is kept at the clearing-house and is open to the inspection of all the members. The committee fills vacancies in the offices or other committees, and has power to suspend the manager and any clerk, and any member of the clearing-house, whenever such action is deemed advisable. Finally, it is the duty of the committee, whenever it may seem to be necessary, to examine any member of the association and establish a scale of fines for errors, disorderly conduct, or other irregularities of the representatives of the members.

CHAPTER XVII

THE ST. LOUIS CLEARING-HOUSE

Early History—Scope of Membership—Plan of Administration—Management of Clearings—Records Kept by the Manager.

The members of the St. Louis Clearing-house Association have stood together with remarkable unanimity on the uniform rates of collection which were introduced on March 1, 1895, and their success is justly attracting the attention of similar associations throughout the country.

The St. Louis Association was organized in 1868, in the midst of the period of reconstruction and when the country was slowly recovering from the blight of civil war. At the beginning there were thirty-five members, and in five years the list had grown to forty-one. This was in the troublous time of 1873, when the institution of clearing-house loan certificates first became general, and which has since proved invaluable in similar crises. St. Louis joined the other leading associations at that time in the issue of these certificates, but to what extent it is not known, the records, unfortunately, having been lost in a fire. In subsequent periods of financial stringency, the association has not found it necessary to resort to the issue of such certificates, although in 1893 some of the members were hard-pressed and obtained relief through the association. The membership has greatly diminished

since the date of organization, and, strange to say, is not half as great now as in 1873. Some failures have occurred, but the change has been due, in the main, to consolidation and to voluntary liquidation.

Originally, the membership embraced private banks, savings banks, and State and national banks, but now no private institutions are included. The present list comprises nineteen members, there being ten State banks, eight national banks, and the German Savings Institution. Besides these, the Post-office and the Assistant Treasurer of the United States clear without the full power of members. The Assistant Treasurer pays nothing for the privilege, but the Post-office is assessed not in proportion to clearings, but a definite amount fixed at forty dollars a year.

Banks may become members of the association by a two-thirds vote of all the members and by the payment of an admission fee of one thousand dollars, in addition to the annual assessment for expenses; but, before applicants can be referred to the association for admission, their merits must be passed in review by the committee of management, and they must have a paid-up capital of not less than five hundred thousand dollars. Any member may be expelled by a three-fourths vote of the members, for violation of any of the Articles, By-laws, or Rules of the association. Likewise, any member may be suspended by the committee of management, provided a majority at least of the committee is present, and that the vote of those present is unanimous. It will be noted that the vote for expulsion is greater than that required for admission. This is the reverse of the rule in most associa-

tions, for, ordinarily, it is easier to get rid of a member than it is to admit him to membership.

Besides the members, there are thirteen outside institutions clearing through the association, five of which are trust companies, four are State banks, two are savings banks, and two are national banks. The last named, and the Workingmen's Bank (now Southern Illinois National Bank) are located in East St. Louis. The members clearing for outside banks and trust companies are liable for their checks and certificates of deposit, the same as for their own; and "their liability continues until after the completion of the exchanges of the morning next following the receipt of notice of discontinuance of such agency."

Section 3 of Article I of the constitution provides as follows:

"The officers of the association shall consist of a president and vice-president, who shall be selected from among the members of the association, and elected by ballot at a stated meeting in January, annually, and shall hold their offices until their successors are chosen and qualified, but shall not be eligible for re-election for more than two consecutive years."

Most clearing-houses have embodied in their constitutions similar provisions, except that it is unusual to provide that members shall not be eligible for re-election for more than two consecutive years. There are also elected at the same annual meeting a manager and committee of management, as opposed to the usual custom of appointment of the manager by the clearing-house committee, and the election of the latter. In the hands of the com-

mittee of management is placed the power to examine the books and accounts of any member of the association, whenever they may deem it necessary, and to employ accountants to aid in such examination. They are authorized to suspend any bank from the privileges of the clearing-house until the association has an opportunity to act upon it.

The president, or, in his absence, the vice-president, presides at all meetings of the association. He is required to call meetings of the same whenever, in his opinion, the interests of the association require it, or whenever requested to do so by the committee of management or any three members of the association. The manager, in addition to the usual duties falling to his office, acts as secretary and treasurer of the association.

Each member is required by the constitution to furnish the manager, for publication, "as often as five times a year, a sworn statement of its condition, at such times as may be designated by the Comptroller of the Currency or the Secretary of State, for statements from national or State banks, and at such times and dates as the clearing-house committee may require. Such statements are made in the form and manner prescribed for statements from national and State banks, and are open to the inspection of members of the association." This provision applies with equal force to all banks not members of the association, clearing through members, but not to trust companies enjoying such privileges. Such statements are now published in the daily press.

The expense of printing is not borne equally by the members, but is apportioned in the same manner as the

other expenses. Each bank pays one hundred and twenty-five dollars annually, in advance, and the expenses necessary after that amount are assessed quarterly upon the members, according to the average daily amount of exchanges which each has sent to the clearing-house during the preceding three months. Each non-member, clearing through a member, pays one hundred and twenty-five dollars a year, in advance, the manager, in January, sending a draft for this amount through the clearing bank against said non-member.

The fines, which amount to less than three hundred dollars a year, are collected from the banks by the manager and are paid by the offending clerks or by their banks, according to the nature of the offence. The total expenses of the association average about nine thousand dollars a year.

We have now to analyze the operations as they take place at the clearing-house from day to day, and in this we shall find that St. Louis differs in some important details from associations in the East. The clearing-room is a beautiful, centrally located apartment, and sufficiently elevated to command a delightful view of the city. Outside of New York, it is the most commodious and best-lighted clearing-room in the United States, but it is not so artistically equipped as the clearing-room at Pittsburgh.

On each business day the clerks appear at the clearing-room at 10.30 o'clock, except on Saturdays, and then at 9 o'clock, with their demands separately made out against each of the other banks, and with their items bound with a rubber band—not placed in envelopes, as is the case in

most large cities. A fac-simile of one of the lists used for the purpose is given in the illustration. Immediately upon his arrival, each clerk delivers his items at the desks of the several members upon which they are drawn. The settling clerks sort, according to the number of the banks, the packages as they are deposited by the delivery clerks.

In five minutes after the hour appointed for the exchanges, the settling clerks are in position, and at the tap of the bell the distributing clerks proceed in line around the room, passing along the sheet containing a list of their exchanges, to be receipted for by the settling clerks. The credit and debit exchanges and the balances are listed by the manager in the usual way on his proof-sheet. After striking the balance, he calls off the credit and debit balances and they are listed by the clerks on sheets prepared in blank form for that purpose, and taken back to their banks. The taking of such copies is optional with the members, it being intended for the information of any banks that may desire them. Hence the representatives of some of the smaller members do not remain to take them, but return to their banks immediately after the proof.

One hour after the exchanges the creditor members return to receive their balances, whereupon the manager issues to them his certificates of indebtedness by the debtor members, payable on demand to said creditor members "without recourse upon any member of the association after 2 o'clock P. M. of the same day, except the debtor members named in such certificates, and except on half-holiday Saturdays, on which days the cer-

Debit List

St. Louis Clearing House,.....1900

From

1	Assistant Treasurer United States..	1
3	Boatmen's Bank	3
9	Fourth National Bank	9
11	Franklin Bank	11
13	German-American Bank	13
14	German Savings Institution	14
16	International Bank	16
18	Mechanics' Bank	18
19	Merchants'-Laclede National Bank.	19
21	Continental National Bank	21
26	National Bank of Commerce	26
27	South Side Bank	27
28	State National Bank of St. Louis..	28
29	Third National Bank	29
32	American Exchange Bank	32
38	Post Office	38

Checks or other items cleared through a Member of this Association on a Bank or other Institution not a Member thereof shall be listed on and fastened to a separate slip, and the total footing of the slip entered as one item on the regular clearing slip. The clearing of such items loosely or in any other manner than herein provided is prohibited.

Lafayette Bank	clears through No. 3	Boatmen's Bank.
North Western Savings Bank	"	9 Fourth National Bank.
Bremen Bank	"	13 German-American Bank.
Southern Commercial and Savings Bank ..	"	13 German-American Bank.
So. Illinois Nat'l Bank, East St. Louis..	"	18 Mechanics' Bank.
Mississippi Valley Trust Co.	"	19 Merchants'-Laclede Nat. Bank.
Union Trust Co.	"	19 Merchants'-Laclede Nat. Bank.
Mercantile Trust Co.	"	26 National Bank of Commerce.
St. Louis Trust Co.	"	28 State National Bank.
Jefferson Bank	"	29 Third National Bank.
Lincoln Trust Co.	"	29 Third National Bank.
First National Bank, East St. Louis....	"	29 Third National Bank.

Fac-simile of Debit List Used in St. Louis Clearing-house.

tificates of indebtedness are issued without recourse upon any member of the association after 11 o'clock A. M. of the same day, except the debtor members named in such certificates."

Usually, the manager's certificates are cashed at the counter of the debtor bank upon presentation of the same by the creditor bank; but sometimes they are certified by the latter and sent through the exchanges against them on the following day. Some banks, however, refuse to certify, but give a cashier's check to a creditor member in exchange for a manager's check held against them, and the former is sent through the exchanges on the following day. Manifestly there is no occasion for the appearance of the debtor members at the clearing-house in the settlement of balances. Immediately, however, after issuing his checks to creditor members the manager fills out a blank giving the clearings and balances, as shown in the illustration, and delivers the same to the debtor bank.

In this way the member-banks know whether the amount of their balance, as reported to them by the clerk on his return from the exchanges, proves with that listed by the manager, and also what banks hold the manager's certificates of indebtedness upon them and in what amount. If the total of the manager's checks issued against them agrees with the amount of their balance, they know that to be correct the manager's checks presented at their counter by the creditor members must agree with the amounts of the same as listed on the card by the manager. This custom of delivering cards is practically unknown to other associations.

ST. LOUIS CLEARING HOUSE.

Date _____ 1900

Total Clearings, \$ _____

BALANCES.

Dr.		Bank No.	Cr.	
		.. 1 Assistant Treasurer U. S. .		
		 3 Boatmen's		
		 9 Fourth National.....		
		 11 Franklin.....		
		 13 German-American		
		 14 German Savings		
		 16 International.....		
		 18 Mechanics'.....		
		... 19 Merchants'-Laclede....		
		 21 Continental.....		
		26 National Bank Commerce.		
		 27 South Side.....		
		... 28 State National Bank...		
		 29 Third National.....		
		... 32 American Exchange...		
		 38 Post-Office		
		 TOTAL		

Form Used for Listing Balances in St. Louis Clearing-house.

The By-laws define proper matter for clearings as follows:

1. All checks or drafts upon or certificates of deposit, demand or matured, of any member of the clearing-house, or any bank clearing through any member.

2. Any other matter specially agreed to by any member, or bank clearing through it, until notice is given to the contrary.

3. Mercantile or other paper payable at any bank, when such clearance shall have been authorized by the said bank, but not otherwise. Items with restricted endorsements and all notes, drafts, and bills of exchange not certified on the previous day are improper matter for clearing; also all unstamped and illegibly stamped items. Express money-orders, railroad and other pay checks are not, by the rules of the association, proper matter for clearing, but their clearing is allowed by consent of the banks at which they are payable and only on conditions prescribed by such banks. Such orders and pay checks "must be listed on separate slips, fastened together firmly with the slips, and the full amount of them entered the same as one check upon the regular clearing slip." For violation of this rule, any member is liable to a fine of two dollars for clearing improper matter.

The manager keeps the following records of transactions:

1. A record of the daily clearings and balances of each member. The same, by addition, is found for weeks, months, and years.

2. The clearings register showing the daily clearings, debits and credits, of each member.

ST. LOUIS CLEARING HOUSE.

1900

Clearings, \$		
Balance, \$		
No. _____		
Debit, \$		
Checks Favor.		
No. _____ \$		
" _____		
" _____		
" _____		
" _____		
" _____		
" _____		
" _____		
" _____		
" _____		
" _____		
" _____		
" _____		

Form of Manager's Report of Clearings, Balances, etc.

3. A record of total credit clearings of each member by months.
4. A record of the clearings, debit and credit, by months for each member, a total of the same being made at the end of the year.
5. A monthly and annual total of the clearings of all the members.
6. A condensed record of the published bank statements.

Although, as we have seen, there has been a great decrease in the membership from the original number, the volume of exchanges has gone on increasing, and the association now takes fifth rank among the clearing-houses of the country.

CHAPTER XVIII

CANADIAN CLEARING-HOUSES

The Banking and Currency System of the Dominion of Canada
—Limitations of Canadian Clearing-houses—Form of Government—Routine of Exchanges—How Members in Default are Dealt with—Monthly Statements to the Minister of Finance—Records of Clearing-house Transactions.

Preliminary to a consideration of the Canadian clearing-system, it is necessary, in order to facilitate the task of the reader in comprehending and appreciating its essential features, to set forth briefly the fundamental principles of the banking and currency systems of the Dominion.

There are some thirty-eight chartered banking institutions in operation in Canada, with nearly five hundred branches, all organized under what is known as Section 85 of the Act of Victoria, Chapter 31, or "The Bank Act" assented to May 16, 1890. These banks are doing business in all parts of the country and in the leading cities of the United States as well. No limitations, numerical or geographical, are placed upon their creation. For example, one bank has about forty branches, with one of them located in London, England.

The combined paid-up capital of the banks acting under the Dominion Government Charter is in round numbers sixty million dollars, each incorporated bank being

required to have a capital of not less than five hundred thousand dollars. In accordance with the following section of the General Banking Act, each incorporated institution may issue notes to the full amount of its unimpaired paid-up capital:

“The bank may issue and re-issue notes payable to bearer on demand and intended for circulation; but no such note shall be for a sum less than five dollars, or for any sum that is not a multiple of five dollars, and the total amount of such notes in circulation at any time shall not exceed the amount of the unimpaired paid-up capital of the bank.”

Since the unimpaired paid-up capital of the banks exceeds sixty million dollars, bank-notes to that amount may be issued, although, as a fact, there are only a little more than forty million dollars of such notes out at present. There is a margin of nearly twenty million dollars for further expansion.

When the demand for money is active, as in certain seasons of the year or in prosperous times, the banks are able to keep out a large circulation, but when the tide begins to turn and the amount of labor diminishes, the notes begin immediately to flow back to the banks for redemption. The demand for currency, therefore, by its own free and unrestrained action, causes an expansion of the volume, and that, too, in proportion to the demand, while the abatement of that demand causes a corresponding contraction of the volume. By this admirable self-regulating process of expansion and contraction of the money supply, Canada has been particularly free from panics, which, with all their disastrous consequences, have

sorely afflicted the industrial and commercial interests of the United States from time to time.

There are only two forms of paper currency, one of which is the notes the banks issue, the other being the Dominion legal tender notes, the issue of which amounts to about twenty-three million dollars. This, with the forty million dollars of bank-notes, makes a total paper currency of more than sixty million dollars.

Each bank issuing notes is required to pay to the Minister of Finance and Receiver General a sum of money equal to five per cent. of the average amount of its notes in circulation. Upon all such deposits interest is received by the depositing bank at the rate of three per cent. per annum. Being required to deposit as a redemption fund only five per cent. of their note issue, and receiving three per cent. interest on that deposit, the banks find in their note issue one of their chief sources of profit, and hence they endeavor to maintain as large a circulation as possible. The manner in which the notes of a bank return to it for redemption will be explained further on.

Within recent years clearing-houses have been established in nearly all the leading cities of Canada, with results no less gratifying than those attending the same movement in the United States. Halifax led the way in 1887, followed by Montreal in 1889, Hamilton and Toronto in 1891, Winnipeg in 1893, and St. John, N. B., in 1896. Each clearing-house is working under a set of rules governing the action of the banks in their daily exchanges, and settlements of balances, and specifying the manner in which the government of the association shall be administered.

In the preambles of the Constitution of the Hamilton, Halifax, and St. John clearing-houses, the objects of the associations are declared to be the effecting of a "more perfect and satisfactory settlement of the daily balances" between the members, nothing being said of the equally important advantage of a more satisfactory method of exchanging items. At Toronto this latter feature is embodied in the statement that the purpose of the association is facilitating the daily exchanges and settlements between the banks.

There is no indication that the founders of any of those associations either intended, or supposed, that it would ever transcend the functions of a clearing-house of the first class, and indeed there has not been thus far a single instance where any other function has ever been performed. No uniform rates of charges for collection of items, no maximum rates of interest on deposits, no borrowing and loaning of balances at the clearing-house, no procuring of legislation relative to banking, no clearing-house loan certificates, and no bracing up of weak members are known to the Canadian clearing-house associations. It has been left to the Canadian Bankers' Association to do whatever is possible in securing proper legislation for the banks. The necessity for the issue of clearing-house loan certificates in the United States, as shown in another chapter, has been due, in the main, to the lack of elasticity in our currency, and since the bank-note issue in Canada obviates this weakness, there has been no occasion for the issue of such certificates.

In Section 2 of the constitution of the Toronto Clearing-house, it is declared that the association shall not be

used, either directly or indirectly, as a means of obtaining payment of any item, charge, or claim disputed or objected to, and that any bank receiving exchanges through the clearing-house shall have the same right to return any item, and to refuse to credit any sum which it would have had were the exchanges made directly between the banks concerned, instead of through the clearing-house, and that nothing in the rules shall deprive a bank of any rights it might have possessed had such rules not been made.

The government of the various Canadian clearing-houses is vested in a board of management, chairman, secretary, and manager. The first named corresponds to the clearing-house committee in the United States, and performs similar duties. The board at Toronto consists of seven bank officers, elected each year. At their first meeting after their election they choose out of their own number a chairman, a vice-chairman, and secretary-treasurer of the clearing-house. At Halifax and Hamilton the cashiers and managers of the several banks constitute a board of management, the chairman of which is elected annually. At St. John Section 3 of the Constitution declares that the managers or agents, or, in their absence, the acting managers or acting agents of the several banks, shall constitute a board of management, the chairman of which shall be elected annually. The board at Winnipeg is composed of a committee of five bank representatives.

The chief duties devolving upon the several boards are to provide suitable rooms for clearing and to furnish the same with stationery and furniture, and whatever else is

necessary; to exercise general control over the affairs of the association; to arrange for officers to act as managers from time to time, except where this duty is performed by a clearing-member; and to engage banks to act as clearing-agents for the receipt and disbursement of balances due by and to the various banks.

At Montreal the Bank of Montreal has been the permanent clearing-agent since 1891. Prior to that time the members acted in this capacity in rotation, as do the members in the other clearing-houses at the present time. The clearing-agent is responsible only for the money actually received by it from the debtor banks and for the payment of such money to the creditor banks. Each clearing-house makes its exchanges in a rented room. The manager's duties are not essentially different from those performed by clearing-house managers in the United States, except that in Canada they are in no way concerned with the receipt and the disbursement of balances by the clearing-bank.

In the beginning it was necessary, in order to form a clearing-house in a given centre in Canada, for all the banks in the place to unite and become members, without regard to their integrity and financial responsibility. Hence, except where numerous new banks are organized, there are but few to become members. At Montreal there are fifteen members, at Toronto fifteen, at Hamilton and Halifax seven, and at St. John five, making a total of forty-seven banks belonging to these clearing-houses. No restrictions in regard to capital are placed upon applicants for membership, the requirement of the General Banking Act that each chartered institution shall have at least five

hundred thousand dollars capital being deemed sufficient by the clearing-house to afford the members a reasonable guarantee of its financial responsibility.

So far no occasion has arisen for any expulsions, and the associations are practically without rules to govern their action in such emergencies. Apparently, they did not anticipate difficulties of this character. There is a clause in the Constitution of the Hamilton Clearing-house declaring that any bank making default in the payment of its draft on Montreal for balances against it, by the specified time, or refusing to pay on presentation a settlement draft given to the clearing-bank, shall immediately cease to be a member of the association.

The terms upon which withdrawals can take place are very clearly defined in the several constitutions, although no member has ever withdrawn. The articles in the different constitutions are substantially the same, but differ slightly in phrasing. The following is from the Hamilton Constitution: "Any bank may retire from this association by giving written notice to the chairman of the board between the hours of 1 and 3 o'clock P.M., and paying its share of any expenses which may be then due, the retirement to take effect from the close of business of the day on which such notice is given. It shall be the duty of the chairman to promptly notify the other banks of such withdrawal."

The only failure that has occurred in the clearing-house membership in Canada was that of the People's Bank at Montreal, which liquidated with open doors. The failure was the result of mal-administration. The bank was a unique institution, having been organized at a very early

day under a private charter, which, once out of existence, can never be revived.

Under the branch system the head office is a member of the clearing-house in the city where it is located, provided a clearing-house exists there. Its various branches which are situated in cities where clearing-houses are located are members of the clearing-house associations there. In this way a given bank may be a member of several associations, and may be, as well, a member of one or more associations in the United States, through its branches located in this country. No such practice as the clearing of non-members through member-banks obtains in Canada, the occasion being avoided by the system we have just described.

The exchange at Halifax takes place at 9.30 o'clock; at St. John at 9.40 o'clock; at Montreal, Toronto, and Winnipeg at 10 o'clock; and at Hamilton at 10.15 o'clock. Each bank, at the appointed time, sends one or more representatives to the clearing-house with its items and currency, enclosed in envelopes, for each of the other banks. The exchanges are made in the usual manner, after which the delivery clerks return to the several banks with the packages, while the settling clerks remain till the proof is made. Ten minutes of grace are allowed at Montreal for the arrival of the clerks, but in no case will the manager delay the clearings over ten minutes.

Preliminary to his giving of the signal to begin the exchanges, the manager calls out, "Ready!" whereupon the clerks all station themselves in their proper places, and at the tapping of the bell begin clearing. The desks are so arranged that it is necessary for the delivery clerks

No. 10.

TORONTO CLEARING HOUSE.

FROM

IMPERIAL BANK.

Delivery Statement.

1900

No.	BANKS.	DR. AMOUNTS.	SIGNATURE.	No.
1	Bank of Montreal			1
2	Canadian Bank of Commerce..			2
3	Merchants Bank of Canada...			3
4	Bk. of British North America.			4
5	Bank of Nova Scotia			5
6	Molsons Bank			6
7	Bank of Toronto			7
8	Ontario Bank			8
9	Dominion Bank			9
10	Imperial Bank			10
11	Standard Bank			11
12	Union Bank			12
13	Traders Bank			13
14	Bank of Hamilton			14
15	Bank of Ottawa			15

Form of Delivery Statement Employed at Toronto.

to pass along behind the settling clerks while depositing their packages. Each carries a list of the "amounts delivered" or "delivery statement," upon which each settling clerk writes his initials as a receipt against the amount of the package delivered to him, all as shown in one of the illustrations.

A small ticket containing the amount of the packages is attached to the exterior, and immediately upon receiving the package, the settling clerk detaches the ticket and transcribes the amount on his settling sheet. In this manner all the amounts are listed, after which the footings are made and the difference taken between the amounts delivered and the amounts received—such difference constituting the credit or debit balance.

Before the exchanges begin, the manager, at his desk in one corner of the room, receives from each clerk as he enters the room a "First Delivery Voucher," containing the amount of the exchanges brought to the clearing-house.

Each settling clerk, immediately upon striking his balance at the conclusion of the exchanges, makes out what is called the "Second Delivery Voucher," containing the amount received, amount delivered, and the balance, and hands the same to the manager. This, in the Toronto Clearing-house, is in the general shape of a check, say three and one-half inches deep by eight inches long. A fac-simile appears among the illustrations.

The manager immediately transcribes the amount received and the balance on his settling sheet (the amounts delivered having been already transcribed), and proceeds to foot up the four columns and strike the balance. The

No. 10.

TORONTO CLEARING HOUSE.

\$

TORONTO.....189.....

CREDIT IMPERIAL BANK OF CANADA

THE SUM OF.....

.....
SETTLING CLERK.

Fac-simile of First Delivery Voucher.

form employed for this purpose is shown among the illustrations.

If the amounts delivered and amounts received agree, and the amount due to the clearing-house and the amount due by the clearing-house tally, the work is correct and the result is so announced by the manager. But if there is a discrepancy, the settling clerks examine their sheets anew, and if it is found in the exchanges, they make a new footing of the columns and also compare the amounts on the small tickets with the amounts listed therefrom on their sheets. If the error remains undiscovered, the clerks call off to each other to see if the amounts delivered agree with the amounts received. If the footings have been made correctly this ought to disclose the error.

If, on the other hand, the discrepancy occurs in the amount due to the clearing-house and the amount due by the clearing-house, it is the result of an error in subtraction, provided there is no error in the columns of exchanges. Such an error is rectified by a revision of this part of the work. The manager sounds the little bell, to indicate that the proof is made, whereupon the settling clerks repair to their separate banks with their second delivery vouchers. The delivery clerks, as already noted, return with the items received to their respective banks at the conclusion of the exchanges.

At 11 o'clock the manager returns to the clearing-house and makes out a list of the balances, which is used as a basis of settlement at the clearing-bank. At the same time he signs the vouchers made out by the settling clerks, indicating the amount of the credit or debit balance, as the case may require. The credit vouchers

No. 10.

TORONTO CLEARING HOUSE.

TORONTO,189.....

DEBIT	IMPERIAL BANK OF CANADA	AMOUNT RECEIVED \$
CREDIT	Do.	Do. DELIVERED \$
	BALANCE DUE	CLEARING HOUSE \$

.....
SETTLING CLERK.

Fac-simile of Second Delivery Voucher.

are printed in black ink and the debit vouchers in red ink, each being countersigned by the settling clerk. Across the face of the credit voucher is written the receipt for the balance, and the ticket is delivered to the settling bank when the balance is received; and on the face of the debit voucher is the receipt for the balance paid into the clearing-bank, such receipt being signed by the teller of the clearing-bank and retained by the debit bank.

The clearing-houses in the United States take no cognizance of errors in the items contained in the packages, but leave to the banks interested the adjustment of any difference that may arise; but in Canada a different custom prevails. At Montreal the banks have until 11.30 o'clock to examine the items received in the morning exchanges and to return any voucher for five thousand dollars or more, on the ground of no funds or not sufficient funds, whereupon it is the manager's duty to demand a new settlement. It would not be regarded expedient nor desirable to return to the clearing-house at 11 o'clock, were it not for the advantages thus afforded the banks of making such examinations of their items, and, if the case may require, of demanding a new settlement.

The occasions are exceedingly rare when a new settlement is necessary, and it is, therefore, regarded by many members as an unnecessary sacrifice of time and energy for the manager to return to the clearing-house to list the balances and to sign the vouchers. It may well be asked whether it would not be an equally safe and more convenient arrangement as well to dispose of this work immediately after striking the original balance, with the understanding that any bank, finding it necessary to do so,

TORONTO CLEARING HOUSE PROOF 1900

No.	BANKS.	DUE TO C. HOUSE.	RECEIVED.	DELIVERED.	DUE BY C. HOUSE.	No.
1	BANK OF MONTREAL.....					1
2	CANADIAN BANK OF COMMERCE.....					2
3	MERCHANTS BANK OF CANADA.....					3
4	BANK OF BRITISH NORTH AMERICA.....					4
5	BANK OF NOVA SCOTIA.....					5
6	MOLSONS BANK.....					6
7	BANK OF TORONTO					7
8	ONTARIO BANK					8
9	DOMINION BANK.....					9
10	IMPERIAL BANK					10
11	STANDARD BANK					11
12	UNION BANK					12
13	TRADERS BANK.....					13
14	BANK OF HAMILTON.....					14
15	BANK OF OTTAWA.....					15

Form of Proof Used in Toronto Clearing-house.

should be permitted to return its voucher, in the same manner and under the same conditions as above, provided the manager is notified before 12 o'clock, or any other hour agreed upon, of the same day.

At Toronto a bank objecting to any item delivered to it through the clearing-house, or to any charge against it in the exchanges of the day, is required, before notifying the manager of the objection, to apply to the bank interested for payment of the amount of the item or charge objected to, and such amount must be immediately paid to the objecting bank. Should such payment not be made, the objecting bank may before, but not after, 12 o'clock notify the clearing-house manager of such objection and non-payment, and he must thereupon deduct the said amount from the settling sheets of the banks concerned and readjust the clearing statements and declare the correct balance, in conformity with the changes so made. It will be observed that this differs somewhat from the Montreal plan.

At Toronto the manager is not required to return to the clearing-house, unless an item is objected to. An effort is made by the objecting bank to adjust the difference with the other bank before calling upon the manager for a new settlement, and no minimum amount is specified of the amount of the item that may be objected to.

At Halifax all errors in the exchanges and claims, arising from the return of checks or from other causes, must be adjusted by 11.45 o'clock of the same day, directly between the banks concerned and not through the clearing-house, except in case of the refusal or inability of a bank to promptly refund to the bank present-

No. 10.

\$

TORONTO CLEARING HOUSE.

TORONTO.

189

CLEARING HOUSE DUE TO IMPERIAL BANK OF CANADA.

RECEIVED PAYMENT

COUNTERSIGNED.

100 DOLLARS

SETTLING CLERK

CLEARING HOUSE MANAGER.

Fac simile of Credit Voucher Used at Toronto (black).

ing such checks, drafts, or other items returned, when the banks holding them must report to the clearing-bank the amount of the same, and it is the duty of the clearing-bank to take from the settling sheets of both banks the amount of such items and readjust the clearing statements and declare the correct balance, according to the changes so made, provided such report is given to the cashier or manager of the clearing-bank not later than 12 o'clock of the same day.

At St. John practically the same rule is in force, except that all claims of one bank upon another, arising from the causes above described, must be paid in legal-tender notes, immediately on demand of the returning bank, and in case of non-payment it is necessary, in order to obtain a new settlement through the clearing-house, to notify the manager of the non-payment before 11.30 o'clock instead of 12 o'clock, as in the former instance.

At Hamilton such errors must be adjusted by 11.30 o'clock of the same day, directly between the banks concerned, and to secure a new settlement through the clearing-house a report of the amount of the discrepancy must be made to the cashier or manager of the clearing-house not later than 12 o'clock of the same day, as compared with 11.30 o'clock at St. John.

Balances resulting from the morning exchanges are paid by the debtor banks at Halifax between 11.30 o'clock and 12.30 o'clock, and at all the other associations between 12 o'clock noon and 12.30 o'clock, and in each case they are paid not to the manager at the clearing-house, but to the bank selected to act as clearing-agent. Drafts on Montreal are used at Hamilton as the

No. 10.

\$

TORONTO CLEARING HOUSE.

TORONTO. 189

IMPERIAL BANK OF CANADA DUE TO CLEARING HOUSE.

100 DOLLARS

COUNTERSIGNED.

RECEIVED PAYMENT
SETTLING CLERK.

CLEARING HOUSE MANAGER.

Fac-simile of Debit Voucher Used at Toronto (red).

medium of settlement, and Dominion legal-tender notes of large denominations at all the other clearing-houses.

The different associations vary not a little in their method of dealing with members making default in the payment of balances within the specified time. At Hamilton, where settlements are made by drafts on Montreal, no rules are laid down for the guidance of the association. At Winnipeg a bank failing to pay its balance within the appointed time, is required to return all items received through the exchanges before 12.30 o'clock, unmarked and unmutilated, to the clearing-house, whereupon each of the other banks is notified of such action and required to return immediately to the clearing-house all items which may have been received from the bank in default, or pay the amount thereof to the clearing-house, and the clearing-house manager is required to adjust the settlement of balances anew.

At Halifax the banks holding items against the defaulting bank are required to furnish forthwith to the clearing-bank the amount of such balance in proportion to their respective balances against the defaulting bank, resulting from the exchanges of that day, and the amounts so furnished to the clearing-bank constitute claims on the part of the responding banks respectively against the defaulting bank. The same rule obtains at St. John as at Winnipeg, but at Toronto the case is peculiar. The rule is as follows:

“Should any bank make default in paying to the clearing-bank its debit balance within the time fixed by this rule, such debit balance and interest thereon shall then (thereafter) be paid by the bank so in default to the chair-

man of the clearing-house for the time being (intervening), and such chairman and his successor in office from time to time shall be a creditor of and entitled to recover the said debit balance and interest thereon from the defaulting bank. Such balances, when received by the said chairman or his successor in office, shall be paid by him to the clearing-bank for the benefit of the banks entitled thereto."

At Hamilton, besides the regular checks, only certified notes and bills of exchange are received through the clearing-house. Sight drafts and uncertified, as well as certified, items are considered proper matter for clearing at Toronto. At Winnipeg drafts, notes, and bills of exchange are not cleared unless certified by the banks on the previous day. At Montreal, owing to keen competition between the banks, certification of such items on the previous day is not always required.

In addition to checks, drafts, notes, and bills of exchange, bank-notes are cleared in all the Canadian clearing-houses. This constitutes one of the most interesting and important features of the exchange. In the daily course of business, each bank in a given city receives notes issued by the other banks. These are assorted according to the banks issuing them, and carefully counted, as a rule, by two persons, and placed in packages, which are placed in still larger packages, containing checks and other items, and then sealed and sent through the exchanges on the following day for redemption. The amount of currency thus cleared from day to day varies from ten to twenty per cent. of the other exchanges.

None of the Canadian clearing-houses require state-

ments of their condition from the member-banks. A satisfactory knowledge of their standing is obtained through the monthly statements required by Section 85 of the General Banking Act. The section in full is as follows:

“Monthly returns shall be made by the bank to the Minister of Finance and Receiver-General in the form set forth in Schedule D to this act, and shall be made up and sent in within the first fifteen days of each month, and shall exhibit the condition of the bank on the last juridical day of the month next preceding; and such monthly returns shall be signed by the chief accountant and by the president or vice-president or the director or principal partner then acting as president, and by the manager, cashier, or other principal officer of the bank at its chief place of business. Every bank which neglects to make up and send in, as aforesaid, any monthly return required by this section, within the time hereby limited, shall incur a penalty of fifty dollars for each and every day after the expiration of such time during which the bank neglects so to make up and send in such return; and the date upon which it appears, by the post-office stamp or mark upon the envelope or wrapper enclosing such return for transmission to the Minister of Finance and Receiver-General, that the same was deposited in the post-office, shall be taken *prima facie* for the purposes of this section to be the date upon which such return was made up and sent in.”

In addition, the Minister of Finance and Receiver-General may call for special returns from any bank, whenever it may be deemed necessary to afford a full and complete knowledge of its condition, and any bank failing to

send in such special return within thirty days from the date of the demand therefor by the Minister of Finance and Receiver-General incurs a penalty of five hundred dollars a day for the continuance of such neglect. The returns are very exhaustive. Eleven items are included under liabilities, and twenty-one under assets, besides many items of a general character not included under either.

The transactions at the Canadian clearing-houses are recorded, but in no case are those records extensive and elaborate. They agree in the main with the records kept by similar associations in the United States. At Montreal a record is kept of the amounts brought or delivered at the clearing-house, with totals of the same for each year. No book with copies of the manager's proof-sheet is kept, as is commonly done, but the proof-sheets themselves are preserved. The other associations keep more or less extensive records of the most important and essential parts of the daily transactions. The expenses are always divided equally among the members, and, as a rule, are paid quarterly. The manager and the paying teller at the clearing-bank commonly receive a small compensation, while in the smaller associations little more than the expense of printing is required.

In no case are fines imposed, although the need of some such deterrent force is not infrequently felt. Something of this sort, it would seem, is necessary to secure promptness in the discharge of the various duties connected with the exchanges and the management of the clearing-house affairs. In this neglect (if such we may call it) the Canadians have followed their English cousins rather than their American neighbors.

The clearings of the several clearing-houses in Canada for twelve months, December to November inclusive, 1897-98, as compared with the same period 1898-99, are given below :

	1897-98	1898-99
Montreal	\$718,624,000	\$794,197,000
Toronto	430,140,000	501,314,000
Halifax	61,276,000	68,386,000
Hamilton	35,392,000	39,898,000
Winnipeg	90,746,000	105,524,000
St. John	29,336,000	32,405,000

The clearings in Vancouver and Victoria for the same period in 1898-99 were as follows :

	1898-99
Vancouver	\$41,325,000
Victoria	33,369,000

The branch system of banking, in which the parent institution is virtually a member of several clearing-houses, renders a uniform set of rules for the several houses a desideration, and such a reform in the near future may reasonably be expected. Other features, such as the adoption of a separate exchange for notes by the association at Montreal, and a system of fines by all the associations, may, in time, be introduced.

CHAPTER XIX

THE LONDON CLEARING-HOUSE

Early History—Stimulated by the Example of New York—
“Out-clearers” and “In-clearers”—Morning Clearings and
Afternoon Clearings—The Final Balance—Detail of Methods.

The utility of clearing-houses has been dwelt upon in other pages of this book. The history of the clearing-house in America has also been set forth, but in that history there has been no indication that the clearing-house system of this country was borrowed from that of any other. In fact, it appears that a clearing-house, in whatever general division of the world it may exist, is a growth or development, something proceeding from well-defined causes and springing into existence to meet a clearly expressed want. It is possible, and even probable, that some of those who were responsible for the organization of the first clearing-house in America knew somewhat of the existence of the clearing-house in London, but that the latter was inadequate as a foundation upon which to base the American institution or exercised any influence upon the plans of these projectors will be perceived at once by the reader of the particulars of the great English institution which follow.

The origin of the London Clearing-house seems to be shrouded in doubt and uncertainty. It was presumably

at the outset an institution of so little importance that the historians of the day paid no attention to it. It was a mere convenience to bankers and an adjunct that had not developed into any considerable importance. The history of the institution, as recorded, goes back as far as 1773, for on that date, in the books of Martin & Co., bankers of London, appears the entry of a charge for the use of the clearing-room. The rent for a quarter would appear to have been 19s. 6d., certainly not an exorbitant charge nor one to indicate either expensive or elaborate quarters.

After this gleam of light, merely showing that the institution existed, darkness again settles over the subject, but it is believed that in 1775 a building in Lombard Street was used by the bankers of the English metropolis for clearing purposes. The evidence of this fact, as appears by the writings of English financial historians who have investigated the subject, is not at all positive. It is recorded of the early London Clearing-house that the object in view was that of reducing the amount of actual money to be used in settlements, a fact which shows that the effort, by whatever name it was called and however managed, was along the same general lines as are followed by the clearing-houses of the present day.

From this early beginning, the system that is now in use in London was undoubtedly developed. It further appears, by the meagre scraps of history that are available, that at the outset many of the bankers of London were opposed to the idea of co-operative clearings, but as the advantages of the method were developed this opposition was gradually withdrawn, and early in the cen-

tury, say about 1810, no less than forty-six banking concerns were represented in the London Clearing-house. No authentic records, however, have been discovered of the transactions of the clearing-house of a date earlier than 1840, and those which are available for inspection, at even that comparatively recent date, are so imperfect and contain so little detail as to be of small value.

After the New York Clearing-house had been established and had demonstrated its right to existence it attracted the attention of London bankers. It was not until the new world had set an example in this respect that English bankers began to give serious attention to those details of clearing-house work which are at present so highly valued everywhere. It was at that time that statistics of transactions began to be systematically collected and tabulated. The relatively perfect system established in New York aroused the managers of the London Clearing-house to an appreciation of the advantage of correct records, and caused them to introduce, in part at least, some of the methods which New York had put into operation.

The present London Clearing-house is situated in Post-office Court, Lombard Street. The clearing-room is on the ground-floor. Architecturally, the building has very little to recommend it. Practically, there is little more than an entrance-door and windows for letting light into the clearing-room. The general appearance of the entrance may be gained by a glance at the frontispiece of this book, which is a reproduction of a recent photograph.

That the methods in vogue in the London Clearing-

house differ materially from those employed in New York, or in the other leading clearing-houses of America, will perhaps be assumed by everyone who has contrasted English and American methods of banking. It would seem as a fact that our English cousins have not succeeded in those labor-saving details and refinements of method which are so thoroughly identified with American practice. Even a casual inspection of the methods of work in the London Clearing-house shows at once, by sharp contrast, the advantages of American drill and discipline, as exemplified in the New York Clearing-house.

To show that we are not speaking from a standpoint of prejudice in this regard, we present herewith an extract from a work by W. Howarth, Fellow of the Royal Historical Society, published in London in 1884, which may be regarded as a strictly disinterested description:

“The men who transact the clearing business for the various banks are called ‘clearers.’ Each bank has two sets of books ruled, the columns being headed with the names of the different clearing-banks. One of these sets is used at the bank itself, the other at the house. The men who enter in the ‘clearing-books’ (as they are called) in the bank are called ‘outclearers,’ while the men whose work is in the ‘house’ are in like manner designated the ‘inclearers.’

“The ‘outclearers’ in the morning send the various cheques secured by their bank on the other clearing-banks, in alphabetical order, having done which, they at once enter them in the ‘outclearing’ books under the

names of the different banks. When the first lot is entered, the batches of cheques, or 'charges,' as they are called, on the respective banks, are cast up, the cheques pinned together, or 'screwed up,' and the total entered on the back of the last article.

"When all this is done, the clerk takes the charges, numbering in all 27, and, placing them in his case, makes off for the house, where he is supposed to be between 10 A.M. and 11 A.M. Arriving there he goes around the building, depositing his charges on the desks of the different banks on whom the drafts are drawn. Each bank does this, and consequently, as there are twenty-eight banks in the house, the 'inclearers' will find on their desks on their arrival, or shortly after, twenty-seven bundles of cheques, etc. The 'inclearers' take with them the 'in books' and at once enter the various charges under the headings of the several banks, casting each when entered, and seeing if the cast corresponds with the total on the back of the last cheque. Should the totals not agree, the clerk sings out in a loud voice the name of the bank with whose total he differs, and the representative of that bank is obliged to go to the desk of the complainant and take with him his 'outbooks.' The items are then run over and the mistake detected and rectified. When the 'inclearer' has entered and agreed all the charges on his desk, he puts the cheques, etc., in his case, and returns to his office, taking with him his 'outbooks.'

"The morning clearing is generally over by noon. On arriving at his bank, the clearer hands the drafts over to the clerk whose business it is to pay the clearings, who examines the articles, and if everything be regular, and

the customers have the money, pay them. The afternoon clearing commences at 2.30 P.M., by which the 'out-clearer' has repeated the process already described as comprising the morning out-work; and a runner is despatched to deliver the charges as in the morning. As the 'outclearer' receives drafts from the waste book and other sources, he sorts and enters, but seldom, except on a very slack day, has time to put an amount on any but the first lot. Thus he goes on till 4 o'clock, when, the cashiers taking no more credits, he receives no more cheques; he then casts his books and, taking them with him, proceeds to the house.

"In the meanwhile the 'inclerk' is also at his post at 2.30 P. M. and finds awaiting him several charges which he enters on, as a continuation of the morning work. As the time passes the runner makes his appearance more frequently and the charges drop on his desk often, and still more often. The runner from his own bank also constantly takes from his book the charges he has 'dealt with,' hastens with them to his office, and hands them to the paying clerks, who examine and despatch them with all speed to the men on the cash books or ledgers.

"The house is prone to indulge in a little fun during the early afternoon, occasionally bursting forth with a 'gloria' or bit of the National Anthem, or other vocal display not quite so edifying, but as three o'clock comes and goes, the pressure of work leaves no time for foolish frivolity.

"Between half-past three and four, nought is heard but the hurried tread of the runners, the dropping of the charges, the scratching of the pens, and the rustling of

paper, as the 'inclearers' with lightning-like rapidity run the items in their in-books and cast them up.

"A quarter to four: the passages are thronged, the pressure more intense, the pens of the clerks seem like express trains running down inclines, so great is their rate of movement, the charges are more frequent and heavy, and drop about the books and heads of the poor clearers like hailstones in a thunder-storm. Five minutes to four: if anything a still harder pull. Four o'clock: the runners are pouring in fast, bawling out their names, and almost more than that, for they rush in and out of the building like so many men escaped from Bedlam.

"Five minutes past four: the white hand of the three-handed clock, which is just five minutes behind the minute hand, is on the four; the bell strikes; the doors are bolted, and from all parts of the room, in various keys, sometimes harmonious, though often otherwise, there arises a prolonged 'oh, oh, oh, oh!' a kind of raising the safety-valve, a letting off of surplus steam, a returning to the ordinary pressure of their business, after having been for so long screwed up to such an abnormally high tension. The striking of the bell at 4.05 P.M., regulates the closing of the door, which means the cessation of any delivery of charges other than those in the house at the time.

"At ten minutes past four, the bolts are again drawn and a general stampede takes place of runners hurrying with the 'last lot of stuff' to their several banks, the receipt of which sets the whole of the internal machinery of the great clearing-banks running with redoubled vigor.

"But the house! as soon as the 'inclearer' has got all

the charges off his desk—in other words, when he has entered the last check or draft—he casts his book. By the time he has finished doing this, the ‘outclearer,’ as already mentioned, has made his advent at the house, bringing with him his ‘outbooks.’ Most of the smaller banks divide the clearing-banks into two sets, and use two books, making one book do for each set, and one clerk for each book; but for the larger banks there are many subdivisions, still the principle is the same. The grand arrangement is that these ‘in’ and ‘out’ books are exact counterparts of one another, so far as the ruling and heading are concerned.

“Therefore when at some minutes past four in the afternoon the clearers at the house receive the ‘outbooks,’ they are immediately handed over to the ‘inmen,’ so that each man has the ‘outbook’ corresponding with his ‘inbook.’

“Now of course it is clear to all our readers that the ‘in’ work of any bank must be the ‘out’ work of the other banks, because the checks to be collected by any bank are despatched to the house and distributed, when the ‘in’ clerks of the several banks enter the various charges in their ‘inbooks,’ that is to say, they enter in their ‘inbooks’ the charges they have to pay. The clearing clerks then arrange their books so that the ‘outbook’ is on their left hand, and the ‘inbook’ on their right—*i.e.*, the book which contains the articles to be received is on their left, while the book containing the articles to be paid is on their right. The ‘sheet’ is then taken, and on it the clerk next bestows all his attention. A specimen of this ‘sheet’ on which the balances are entered is as follows:

DEBTORS.	THE.....BANK.	CREDITORS.
	Alliance	
	Barclay	
	Barnett	
	Bennett	
	Bosanquet	
	Brown	
	Capital and Counties	
	Central	
	City	
	Consolidated	
	County	
	Dimsdale	
	Fuller	
	Glyn	
	Imperial	
	Joint	
	Bank	
	London and Southwestern	
	London and Westminster	
	Martin	
	Royal Exchange	
	National	
	National Provincial	
	Prescott	
	Robarts	
	Southwark	
	Smith	
	Union	
	Williams	
	County Clearing	
	C. H.	

“ This form is in reality a summary of the day’s proceedings, for when complete, it is a statement of the exact position which each individual bank bears to all and each of the clearing banks.

“ From a quarter past four to five o’clock there is the hurrying of the clearers from one desk to another, shouting out for the different clerks, calling off amounts, cries of

'charge you,' 'pay you,' and so on, apparently a perfect Babel. The noise, which seems to betoken cessation of work, is really a cloak, as it were, to the busiest time of the whole day, for a settlement must be made of all the transactions, and the clerks are agreeing their different totals and casts, checking amounts. The rapidity with which the mental calculations are made is simply marvellous; the clearers run up column after column of figures with their eyes, dotting down totals as they go on, and with the majority it is a strange exception to find an error.

"Remember, there is working and working—working in a bank is one thing, for there is some noise and distracting influence; but working in the clearing-house is like working in a place where everything tends to distract and deter the mind from action.

"With a man on this side and another on that, both shouting out different questions to him at the same moment, with a clerk from 'Glyn's' yelling out for the cast of 'his side,' with the 'Union' man calling at the top of his voice to know whether he has his 'books' (out) down yet, with the 'Imperial' man asking for the amount of some item or other, the clearer has to remain calm, unmoved, and withal alive in every faculty to the situation, casting as if he were in solitude and alone, undisturbed by any, going on in his own way. When he has marked or ticked all his balances, he returns to his desk and waits.

"In the meantime, while all these things have been taking place at the House, the runner has delivered his drafts (which he took from the 'inclearer's' box) to the proper authorities of his establishment, by whom they are ex-

amined as speedily as possible. All those cheques, etc., which the bank officials cannot pay, are despatched forthwith back to the House. The 'inclearer' at once enters them on the 'debtor' side (left hand side) of his sheet at the end after the cast, and then finally casts up that side. As soon as entered, the 'returns' are distributed just in the same manner as are the charges in the afternoon.

"As the clearer sits at his desk, he receives the returns sent to him by other banks, and these he enters on the creditor (right hand) side of the sheet. At five minutes past five the bell once again strikes, the clerk runs up his sheet, casting it finally, and strikes the balance, which, if it be a debit one (say £15,009, 1s. 6d.) he enters on a little form printed in red, thus:

Drs. Messrs.....	
	To General Balance.
<u>£15,009 1s. 6d.</u>	

"If, on the other hand, he has to receive, say £29,347, 2s. 6d., he uses a similar form printed in black:

Crs. Messrs.....	
	To General Balances.
<u>£29,347 2s. 6d.</u>	

“ Having filled up this little form, he next proceeds to write his ticket, which will be a ‘ green,’ if he is to receive on account of the day’s transactions, a ‘ white ’ if he has to pay. The green ticket runs as follows :

SETTLEMENT AT THE CLEARING-HOUSE.	
London,	188
To the Cashier of the BANK OF ENGLAND.	
Be pleased to CREDIT our Account the sum of,	
out of the money at the credit of the account of the Clearing Bankers.	
£.....	
Seen by me	Inspector of the Clearing-House.

“ This is the left hand half of the ticket; the right hand is somewhat different, thus :

SETTLEMENT AT THE CLEARING-HOUSE.	
BANK OF ENGLAND.	188
To Account of Messrs.	
has this evening been CREDITED with the sum of,	
.....	
out of the money at the credit of the account of the Clearing Bankers.	
For the Bank of England,	
£.....	

“ If it happens that the clearer has to pay on account of his bank, he then fills up a white form, the left and right hand halves of which are as follows :

(Left Hand)

SETTLEMENT AT THE CLEARING-HOUSE.

London, 188

To the Cashier of the Bank of England.

Be pleased to TRANSFER from our Account the sum of.....

.....
 and place it to the credit of the Account of the Clearing Bankers,
 and allow it to be drawn for by any of them (with the knowledge of
 either of the Inspectors, signified by his countersigning the drafts).

£.....

(Right Hand)

SETTLEMENT AT THE CLEARING-HOUSE.

BANK OF ENGLAND. 188

A TRANSFER for the sum of.....
 has this evening been made at the Bank, from the Account of
 Messrs.....
 to the account of the Clearing Bankers.

£..... For the Bank of England.

This certificate has been seen by me,

..... Inspector.

“ When the ticket is ‘ white,’ the clearer fills it up with the other form, leaves the little form with his sheet on the Inspector’s desk, and then hurries over to the Bank of England with his ticket. The cashier at the bank, seeing that the ticket presented to him is signed by the manager, or other persons duly authorized, of whatever bank the clerk may purport to come from, signs the counterfoil, and retains the half, authorizing him to transfer a certain

amount from the account of that bank to the account of the clearing bankers. The clearer on receiving the other half, signed by the cashier of the Bank of England, returns to the House to get the Inspector's signature to the transfer, which he then takes to his own establishment. If the clearer be going to receive, he gets the Inspector's signature first, then goes to the Bank of England as before, where the same operation takes place. On regaining his ticket, or rather half of his ticket from the cashier, he returns to his own bank."

CHAPTER XX

JAPANESE CLEARING-HOUSES

Location—Date of Formation—Hours of Clearing—Average Daily Clearings and Balances—Tokio Clearing-house—Volume of Clearings and Growth in Ten Years—Arrangement of Clearing-room—Abstract of Rules and Regulations of Tokio Clearing-house.

In view of the recent ascendancy of Japan among the commercial and manufacturing nations of the world, an account of the clearing-houses there existing is of interest to bankers and business men everywhere. The following particulars were gathered from a representative of the Japanese Government, who visited this country a short time since, in quest of information concerning the conduct of American financial and business institutions:

There are four clearing-houses in Japan—namely, the Osaka Clearing-house, which dates back to December 1st of the twelfth year of Meiji (1879); the Tokio Clearing-house, which was established December 1st of the twentieth year of the Meiji (1887); the Kobe Clearing-house, which was established July 1, 1897, and the Kioto Clearing-house, which dates from December 15, 1897. The Osaka Clearing-house Association is comprised of twenty-two members, among which are thirteen head offices and nine branches. The Tokio Clearing-house

Association has thirty-four members, embracing eighteen head offices and sixteen branches. The Kobe Clearing-house Association has ten members, of which four are head offices and six are branches. The Kioto Clearing-house Association has twelve members, of which seven are head offices and five are branches.

Clearings in all of these are made once a day. The Tokio Clearing-house opens at 10.30 A.M., and closes at 11 A.M. The Osaki Clearing-house opens at 1 P.M. and closes at 1.30. Similar short periods of time are observed by the clearing-houses at Kioto and Kobe.

Bills of exchange, promissory notes, certificates of deposit, and checks are regarded as good clearing-matter and are allowed to pass through the clearing-houses as regular exchanges. The average daily clearings and balances in the four clearing-houses named are as follows:

	Clearings, in Yens.	Balances, in Yens.
Osaka	560,000	120,000
Tokio	2,600,000	920,000
Kioto	210,000	54,000
Kobe	260,000	74,000

Balances are borrowed and loaned on interest by the bank officials. The central bank (the Bank of Japan) settles the balances by means of transfers between current accounts. Each bank in the clearing-houses has an account with the central bank. The central bank is located in Tokio, but has branches in various cities.

The expenses of the clearing-houses are met as follows: One-half of the total expenses is borne by the banks comprising the clearing-house in equal shares.

The other half is paid by the banks in proportion to the amount of items presented by them at the clearing-house.

Country banks are not allowed to clear their bills and checks through the clearing-houses, but banks in the cities are permitted to clear their bills through a member of the clearing-house. A clearing-house bank clearing items for a non-member is required to apprise all the members of the clearing-house of this fact.

The Tokio Clearing-house, as before mentioned, dates back to 1879. At the beginning the association was composed of twelve banks. The business methods of the clearing-house at that time were so imperfect that it was finally compelled to discontinue business. This occurred after an existence of about three years. There then followed a careful investigation of the various systems employed in different parts of the world, which resulted in the formation of a new clearing-house in February, 1891. The new clearing-house was organized under the name of the Tokio Clearing-house and it commenced business in March of that year. It was modelled upon the lines of the London Clearing-house. The special features adopted are indicated by the following rules:

(1) The settlement of the daily balances will be effected by transfers on the books of the Bank of Japan.

(2) The Bank of Japan will clear its notes and checks as a special member.

(3) Items received by clearing-house banks are to be passed through the clearing-house. Direct exchange between members of the clearing-house will not be al-

lowed. For the violation of this rule, an appropriate penalty is provided.

(4) Each member shall deposit as security with the clearing-house five per cent. government bonds, to the amount of ten thousand yens, face value.

The members of the Tokio Clearing-house, at the time of its organization, were as follows: The First National Bank, the Third National Bank, the Fifteenth National Bank, the Twentieth National Bank, the Twenty-seventh National Bank, the One Hundred and Nineteenth National Bank, the Mitsui Bank, the Yasuda Bank, Branch of the Thirteenth National Bank, Branch of the Thirty-second National Bank, and one other. In addition to this number, there was the Bank of Japan, which is a special member. In January, 1895, the Kawasaki Bank and the Imperial Commercial Bank were admitted to membership. In February of 1896, five additional banks joined the association—namely, the Tokai Bank, the Forty-first National Bank, the Seventy-seventh National Bank, the Seventy-eighth National Bank, and the One Hundred and Thirteenth National Bank. Since May, 1896, the Tokio Clearing-house has occupied a room in the new building erected by the Bank of Japan.

The growth of the clearing-house business in Japan is shown by the following table, which gives in the first column the number of items, and in the second their amount for each year, from 1887 to October, 1897, inclusive:

Year.	Number of Items.	Amount, in Yens.
1887	1,084	1,232,185
1888	25,289	12,281,948
1889	36,524	19,559,400
1890	42,301	20,206,094
1891	59,427	67,595,422
1892	97,190	113,576,594
1893	134,505	148,018,871
1894	172,189	185,597,497
1895	223,123	289,102,424
1896	349,429	417,425,507
1897 (to October) .....	.....	440,464,548

The arrangement of the banks in the clearing-room of the clearing-house is as follows: The desks are in two parallel rows, at some little distance apart. Between them, at one end and projecting outwardly, somewhat beyond the ends of the rows, are the desks of the manager and secretary, respectively. The first desk at the right of the manager is the Bank of Japan. Following in order down this row are the First National Bank, the Third National Bank, the Fifteenth National Bank, the Twentieth National Bank, the Twenty-seventh National Bank, the One Hundredth National Bank, the One Hundred and Nineteenth National Bank, and the One Hundred and Thirteenth National Bank. The row at the left of the manager has banks in the following order: Mitsui, Yesuda, Konoike, Thirty-second National Bank, Imperial Commercial Bank, Kawanaki, Tokai, Forty-first National Bank, Seventy-seventh National Bank, and Seventy-eighth National Bank. This list includes only those banks which have been previously designated in this description as head offices.

The following abstract of the rules and regulations of the Tokio Clearing-house will give a general idea of the organization and conduct of this institution. The other Japanese clearing-houses are largely modelled upon the same plan, and, of course, are subject to the same general laws:

This clearing-house shall be named the Tokio Clearing-house, and it shall be located within the precincts of the Bank of Japan, Honriokae Cho (street), Nippon-bashi Ku (district). The object of this clearing-house is to exchange bills and checks of various descriptions, received by member-banks.

Claims arising from the non-payment of bills and checks, or from the mistakes of clearing, shall be settled between the banks concerned, and the clearing-house shall not be responsible therefor.

The rules for clearing are as follows: The clearing-house will open at 10.30 A.M. and close at 11 A.M. exactly. These hours are subject to change by the board. Only those bills and notes payable at member-banks can be cleared. Daily balances shall be settled by means of transfers in the current accounts of the various banks in the Bank of Japan. The settling clerk of each clearing-bank must list bills and checks, and endorse each of them. The settling clerk shall also prepare slips and lists, which must accompany the items brought to the clearing-house.

The settling clerk of each bank, after the exchanges are made, shall fill out the debtor side of his list, strike a balance, and prepare a balance sheet, which he shall submit to the manager of the clearing-house. The man-

ager of the clearing-house shall examine the balance sheets submitted by the settling clerks, and it shall be the duty of the secretary to enter all items in a book kept for that purpose. The settling clerks of the debtor banks shall prepare sheets showing the balances due from them, which shall be signed and sent to the Bank of Japan, which, in turn, shall give advices of the entry. These advices shall be sent to the manager of the clearing-house for his signature.

Credit banks shall also make up slips showing the balances due them, which slips, after being signed by the settling clerks, shall be sent to the manager of the clearing-house for his signature, after which they shall go to the Bank of Japan, which shall give advice of credit.

The manager of the clearing-house shall make up his settlement sheets every day, after clearing, and send them to the Bank of Japan.

When bills and checks sent through the clearing-house are dishonored, they shall be returned through the exchanges of the next day to the banks presenting them, from whom they shall receive the cash therefor. Notification of dishonored items must be made before 3 o'clock of the day in which they are passed through the clearing-house.

If the bank which presented the dishonored bills refuses to take them up, and if it fails to send the requisite sum of the Bank of Japan before 1.30 P.M., the credit bank shall advise the manager of the clearing-house, and thereupon he shall call upon the debtor bank to make the payment.

If the debtor bank does not then make the payment,

the manager of the clearing-house will make new settlement sheets and will force the bank to send back all checks and bills of the previous day for return to the banks presenting them. If the items above referred to have been stamped "Paid" or "Entered," the bank must make out a slip, advising that they were not paid. If the bank does not fulfil this requirement, the manager of the clearing-house will then establish the fact of their non-payment by means of his books.

The following regulations concerning clearing-banks are in force: Only banks having accounts with the Bank of Japan are eligible to membership. The Bank of Japan, as a special member, shall send its settling clerk to the clearing-house. Each member shall deposit as security, with the clearing-house, Government bonds bearing interest at the rate of five per cent. or more, to the amount of ten thousand yens, face value. The expenses of the clearing-house shall be paid by its members, immediately after receipt of advice from the committee. Members shall not without reason refuse bills and checks payable at clearing-banks in the course of their business. Whether a clearing-bank has bills or checks to bring into the clearing-house or not, it must send its settling clerk to the clearing-house.

Banks desiring to become members of the clearing-house shall apply to the committee of the clearing-house, through an introduction of a clearing-bank. The committee shall give notice of the application to the members, and they will proceed at the proper time to ballot in secret, a three-fourths vote being required to admit a new member.

Before clearing for a non-member bank, a bank must give notice to the committee, which shall advise all the other members. The clearing-bank shall not be responsible for the bills of the bank for which it clears.

Members desiring to retire from the clearing-house shall apply to the committee, whose duty it shall be to notify all the members, and if there is no objection, the application shall be granted. Until its resignation is accepted, the bank shall not receive its security, and shall send its settling clerk to the clearing-house as usual.

If a member refuses the payment in accordance with the provisions relating to dishonored bills, the committee shall sell its security and settle its debts, in which case the committee shall expel the bank and advise all the members, and the members shall not receive checks and bills payable at that bank.

When a member violates the rules of the clearing-house, or is deemed insolvent, or in danger of failing, the committee shall make an investigation, summoning before it an officer of the bank. A special meeting of all the members shall be called, and with the consent of three-fourths of those present, the bank may be expelled from the clearing-house.

The following are the regulations concerning meetings: Meetings are of two kinds: First, regular meetings; second, special meetings. Regular meetings shall be held twice a year, in January and July, at which meetings the committee shall make reports of the general affairs of the clearing-house and of the expenditures for the preceding six months. Special meetings shall be held when the committee deems it necessary, or at the

request of five or more members. The chairman of the committee shall preside at the meetings. In his absence, one of the other members of the committee shall take his place. A quorum shall consist of a majority of the whole number.

All questions, except those relating to the admission of new members, the expulsion of members, and amendments to the Constitution, shall be decided by majority vote. In case of a tie, the chairman shall have the deciding vote. The minutes of the meeting shall be kept and signed by the chairman.

The following are the provisions relating to the clearing-house committee: The committee shall consist of three members and the term of office shall be for one year. They shall be chosen from the managers and directors of the clearing-banks and shall have the power to select their own chairman. They shall be eligible for re-election.

The duties and powers of the committee are indicated in the following summary: (a) General business of the clearing-house; (b) Enforcement of the rules of the clearing-house; (c) Control of the manager; (d) Appointment, dismissal, and regulation of the salary of the manager, subject to the approval of the clearing-house banks; (e) Appointment and dismissal and regulation of the salary of the secretary; (f) Arbitration of disputes between members; (g) Calling special meetings. Of the foregoing, a, b, and c can be attended to by one member; d, e, f, and g require a two-thirds vote of the committee.

The following are the regulations affecting the manager and secretary: The manager shall be appointed by

the committee, subject to the approval of the meeting. The manager shall be controlled by the committee and shall have supervision of the secretary's work. He shall be responsible for the settlement of the clearings and the settling clerk shall be under his control and must obey his commands while in the clearing-house. The secretary, under supervision of the committee and manager, shall attend to the general affairs of the clearing-house.

The following rules relate to expenditures: The report of the expenditures of the clearing-house shall be presented by the committee twice a year, at the regular meetings. The expenses of the clearing-house shall be met in the following manner: One-half shall be borne by all the members equally; the other half shall be apportioned between members, according to the amount of items presented by them at the clearing-house. To provide a fund to meet expenses, members are required to deposit with the clearing-house a certain sum of money, stipulated by the committee.

The following provision with respect to changes of Constitution and By-laws is made: The Constitution may be amended by a three-fourths vote, at a meeting of the members of the association, but, to be effective, requires the approval of the Bank of Japan.

The following rules with regard to penalties are in force: Settling clerks who are late shall be fined thirty sens (fifteen cents). If a settling clerk is more than five minutes late he will be fined fifty sens (twenty-five cents), and, in addition to this, he will not be allowed to deliver his bills and checks to the other banks, but he will be obliged to receive those that are brought in by the

other banks to him. Members shall not be absent without reason, under penalty of a fine of two yens (one dollar). If absent, the bills to be delivered to the bank can be presented direct for payment.

If a settling clerk makes a mistake in his balance-sheet, submitted to the manager, he will be fined twenty sens, but if he finds his mistake five minutes before the closing of the settlement, he will be released from the fine. If he cannot find his mistake after the closing of the clearing, he will be fined twenty sens for each ten minutes. If there is a mistake in the slip, the clearing-house will collect thirty sens fine from the presenter of the slip, and the provision regulating the fines of settling clerks who make a mistake in their balance-sheets submitted to the manager will stand void. If the payment of dishonored bills and checks is deferred, or if the paying in of the balance to the Bank of Japan is deferred, two yens will be collected in each case.

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